VIABLE ESTATE PLANNING
FOR THE
CAREER MILITARY OFFICER

by

HERBERT F BRAND

VIABLE ESTATE PLANNING

FOR THE

CAREER MILITARY OFFICER

by

HERBERT F BRAND

Bachelor of Science
Hartwick College, 1957

A thesis submitted to the
School of Government and Business Administration
of
The George Washington University
in partial fulfillment of the requirements for the
Degree of Master of Business Administration

Thesis directed by
George F. Conner, M.B.A.
Assistant Professor of Business Administration

JUNE 1971

CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

Background

The military officers first responsibility as an officer is to the nation. His family then becomes his second responsibility. There can be no greater satisfaction to an officer than the realization he has provided as best he could for the loved ones who depend upon him for support--"the officer who fails to do this is morally guilty of neglect."[1]

The task then is to provide for all forseeable contingencies within the assets available to the individual officer. Certainly his concern should be proportionately greater than that of an extremely rich man, because he has little margin for error. His concern is economic in nature because the problems of financial management involve the efficient allocation of scarce resources to the satisfaction of competing human wants.

How to allocate income between current needs and savings for future contingencies becomes the basic problem. Current income must provide both current

---

[1]Arthur A. Ashton and William P. Mack, The Naval Officers Guide (Annapolis, Maryland: United States Naval Institute, 1964), p. 474.

expenditures and savings. If an officer knew that he would be the last surviving member of his family and he would be employable for the rest of his life, he could then spend all his income without consideration for saving any portion of it.

Uncertainty must be contended with. Income may be curtailed because of premature death, disability, retirement, or involuntary unemployment. Other personal hazards may occur to one's personal assets such as home, furniture or other personal property. The officer must decide therefore how to allocate his earnings to satisfy his current needs and to protect his family against future uncertainty.

Several approaches might be taken to solve this resource allocation problem. Many officers probably set their standard of living and then save the rest of their income (if any) the best way they can. Unfortunately, this method is not likely to provide adequate protection and could result in economic ruin for the family if the death of the officer or substantial loss of property occurs.

An opposite approach might be taken. This approach would be to fully protect the family against financial peril and then live on what remains. Current economic survival would be the major problem if this approach were taken.

Either of the aforementioned approaches could be instituted with very little effort or planning. What is probably done by most officers is a compromise of these approaches with perhaps an added hope that all will turn out well. The major drawback in this case is that the family normally is ignorant of their exposure to economic peril.

Use of Marginal Analysis

"Estate planning" has many facets. As a minimum, estate planning should consider present income, the economic factors of continued life into the military retirement years, and the possibility of premature death. Proper estate planning will assure that these efforts are complimentary so that assets built up under threat of early death may be used in the retirement years to supplement retirement income and social security benefits.[2] It is therefore axiomatic that successful financial and estate planning depends ultimately on knowing what portion of the present income is available for retirement and for the survivors in case of the untimely death of the financial provider.

To best allocate the assets available a balanced financial plan is advocated based on sound economic principles. The concept of marginal analysis will be employed to ensure that the last dollar spent on either current needs or on savings will be equally satisfying. A balanced plan is achieved when the planner is convinced that the plan cannot be improved by shifting a dollar from current consumption to savings or vice versa. If done properly, the planner knows that future needs are satisfactorily provided for without an excessive reduction in the standard of living. Thus, the highest standard of living is achieved without risking the family's security.

---

[2] Sal Nuccio, The New York Times Guide to Personal Finance (New York: Harper & Row, 1963), p. 71.

Importance to the Career Military Officer

Unfortunately, detailed estate planning is considered unnecessary by the majority of the young career military officers the author has encountered. The reason usually given for this lack of concern is a contention that the surviving family will receive adequate compensation from the service if they die on active duty. In all but unusual circumstances their families will receive compensation but it is questionable whether the compensation will be "adequate."

Additionally, consideration is not usually given to the long range financial requirements of the retirement years when in many cases income requirements are the greatest and actual income is severally curtailed. In the eight to tenth year of service an objective analysis of fringe and retirement benefits is made by many career officers. This is certainly understandable since cash earnings are low and expenses of marriage and career are usually high in the early years. It is perhaps unfortunate this analysis does not occur sooner because it is never too early to start to plan for the protection of the family. [3]

Several factors make estate planning more important for the military officer than for his civilian counterpart. Excluding the danger inherent in a military career, the most serious estate planning problem for the career military officer arises because the military career is normally shorter than that for most professions. The chances

---

[3] "Bird in Hand," Navy Times (Feb. 10, 1971), p. 12.

for non-selection for promotion further curtails the length of many careers. An officer finds himself losing more than half his income at an age (forty-two to sixty) short of eligibility for social security and with a monthly retirement check normally inadequate to support himself and his dependents. Any rational plan must allow for this somewhat unique situation.

Scope and Organization

This thesis will attempt to quantify some of the considerations normally involved in estate planning. Among these quantifiable considerations are the value of present earnings and fringe benefits, and an estimation of future retirement income. The scope of fringe benefits available is broad and needs to be considered in formulating an adequate estate plan.

Certain fringe benefits are difficult, if not impossible, to quantify. For example, what financial value can be placed upon the services "help-the-bereaved" program where a Casualty Assistance Officer is detailed to ensure the family is apprized of the benefits due them and assists in securing the same if so desired by the family? Other fringe benefits impossible to quantify will be listed without pecuniary value.

This introductory chapter discusses the background and need for an examination of the estate planning process by the career military officer. It also establishes that planning is required for the military retirement years that lie short of social security eligibility.

Chapter II details the composition of the income of the officer's estate under four conditions. These conditions include income received from active duty service, retirement income, survivor benefits due from active duty death or from the death of a retired officer.

Chapter III matches financial requirements of the officer's survivors with an estimation of available compensation. A plan is formulated for a selected grade level noting deficiencies and suggesting remedies. A discussion of the elements commonly used in maintaining and building estates is also noted here.

Chapter IV evaluates wills, trusts, and tax planning. Some additional comments are offered concerning the location of estate documents and the contents of the letter of last instructions.

Chapter V contains the summary and author's conclusions as a result of this study.

The research for this paper was conducted in the Bureau of Naval Personnel and the Navy Supply Systems Command. The sources used were official government documents, the research facilities of local libraries, and articles, pamphlets, and newspapers available to the general public.

CHAPTER II

TOTAL COMPENSATION OF THE ESTATE

It is difficult to calculate the lifetime earnings of the career military officer since only a small percentage serve more than thirty years and many retire after twenty years of service. Most supplement their incomes with civilian employment after retirement. Thus, the pay received from military service is only part of the money earned in a lifetime. Finding number three of the military compensation study known familiarly as the "Hubbell Plan," states: "For the vast majority of its members, the military organization does not provide a lifetime career. Rather a military career is, for the most, only the first part of a two-career lifetime."[1]

Nevertheless, the military officer earns enough while on active duty to establish and maintain a viable estate. Military compensation is difficult to define and different combinations of a wide variety of items have been treated as compensation at one time or another.

---

[1]U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, The Military Estate Program, Vol. IV of Modernizing Military Pay (1969), p. S-3.

Composition of Active Duty Income

Understanding the composition of active duty income is the first step in successful financial management. Income is the resource available for satisfying the economic needs of an officer and his dependents. Once the gross income is known, full attention can be given to its efficient allocation. One definition of income is that it is the sum of various pay and allowances that vary in accordance with grade, length of service, and type of duty. This definition seems to omit non-monetary benefits of which the military officer has a great variety and which have considerable value--although this value is difficult, if not impossible, to quantify due to individual valuation of there worth. The Hubbell staff, of necessity, constructed a definition for total military compensation. A compensation item had to cost the government money and also had to be of value to the recipient in one or more of three ways: (1) it adds cash to his current income; (2) it permits him to realize a current net cash savings; or (3) it creates a present value to him based on the prospect of a future receipt. The Hubbell staff then classified military pay into three categories in conjunction with their definition for total military compensation:

1. Regular Compensation: The permanent components of income received by all personnel each pay period.
2. Special and Premium Pays: Taxable cash pays that depend on special occupational qualifications or duty performance.
3. Supplemental Benefits: Retirement, survivor and health benefits, etc.[2]

---

[2]U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Active Duty Compensation (Appendices I-X), Vol. II of Modernizing Military Pay (Washington, D.C.: Government Printing Office, 1967), pp. 17-18.

The fragmentation of military compensation is confusing. For example, it has been determined that less than 60 per cent of military compensation is in taxable cash.[3] The methods of payment and their relationship to total military compensation is shown in Table 1.

Taxable Cash

Taxable cash is composed of basic pay and special pay. Basic pay varies with years of service and rank (pay grade). Basic pay is the largest component of military compensation accounting for about two-thirds of the total cash salary and about one-half the total compensation received. Certain officers are entitled to special pay in addition to basic pay and allowances. Medical and dental officers are entitled to special pay according to their longevity and veterinary officers receive some extra pay. Bonuses have also been given certain medical officers who agree to remain on active duty after their initial obligatory service has been completed. Hazard Duty Incentive Pay (flying and submarine duty) is paid to qualified officers in accordance with their pay grade and longevity. Other incentive pay is received by those performing as divers, flight deck officers, parachutists, and several other categories of personnel who participate in dangerous assignments. Except in time of war declared by Congress and if the Secretary of Defense prescribes, service personnel may be paid Hostile Fire

---

[3]U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Active Duty Compensation, Vol. I of Modernizing Military Pay (Washington, D.C.: Government Printing Office, 1967), p. S-5.

TABLE 1

MILITARY COMPENSATION

Method of Payment	Percent of Total
Taxable Cash	58.8
Non-taxable Cash Allowances	11.5
Allowances in Kind, Nontaxable	8.7
Savings (medical, tax advantages, etc.	9.5
Deferred Compensation (retirement accruals)	11.5
TOTAL	100.0%

SOURCE: U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Active Duty Compensation, Vol. I of Modernizing Military Pay (Washington, D.C.: Government Printing Office, 1967), p. S-5.

Pay of $65.00 for any month spent in a "hostile fire area." If an officer is hospitalized for the treatment of a wound or injury received in such an area, he may receive Hostile Fire Pay for an additional three months while hospitalized.

Non-Taxable Cash Allowances

Every officer is entitled to a subsistence allowance of $47.88 per month regardless of rank, longevity, or dependent status.

A quarters allowance, or quarters-in-kind is furnished to all officers. Quarters-in-kind is determined by number and kinds of dependents as well as the officers pay grade. The quarters allowance is determined by pay grade and marital status.

Other Allowances

Various allowances may be paid to alleviate certain hardships. These allowances include family separation allowances, uniform allowances, travel and per diem allowance, and household goods allowance.

Savings

Both subsistence and quarters allowances are non-taxable. This savings is an element of military compensation and its effect depends on family size, income tax

bracket, tax deductions, and other influences affecting an individuals tax liability. Table 2 details monthly basic pay, subsistence and quarters allowance by pay grade.

An estimate of the average tax advantage by pay grade was made in 1967 and is shown in Table 3. This listing is a conservative estimate due to pay raises since 1967.

Attempts have been made by various interests to quantify the value of other benefits of military personnel. These so-called "fringe benefits" defy exact quantification because of the different life styles of the individuals and family groups that compose the military officer cadre. However, the Defense Study Group on Military Compensation (1962) put the following dollar amounts on annual military fringe benefits (value to military officer) based on the cost to the government.[4]

Exchanges	$ 27.18
Commissaries	46.20
Medical (for the officer)	119.20
Medical (for dependents)	173.39
Total	$365.97

The Hubbell staff developed savings estimates for exchanges and commissaries but not medical costs. These savings were broken down by income level and family size. An approximate compilation of the Hubbell figures[5] indicates a much larger exchange and commissary saving than the 1962 study. For example, an officer currently receiving pay and allowances for pay grade O-1 receives an annual savings

---

[4] Navy Times, February, 1963, p. 5.

[5] Active Duty Compensation, Vol. I, pp. 107-108.

TABLE 2

COMMISSIONED OFFICERS MONTHLY BASIC PAY, QUARTERS AND SUBSISTENCE ALLOWANCES BY PAY GRADE

Effective 1 January 1971

BASIC PAY

Pay Grade	Years Service													
	Under 2	Over 2	Over 3	Over 4	Over 6	Over 8	Over 10	Over 12	Over 14	Over 16	Over 18	Over 20	Over 22	Over 26
0-10[1]	$2111.40	$2185.80	$2185.80	$2185.80	$2185.80	$2269.50	$2269.50	$2443.50	$2443.50	$2618.40	$2618.40	$2793.30	$2793.30	$2967.60
0-9	1871.40	1920.60	1961.70	1961.70	1961.70	2011.20	2011.20	2094.60	2094.60	2269.50	2269.50	2443.50	2443.50	2618.40
0-8	1695.00	1745.70	1787.40	1787.40	1787.40	1920.60	1920.60	2011.20	2011.20	2094.60	2185.80	2269.50	2361.00	2361.00
0-7	1408.20	1504.20	1504.20	1504.20	1571.10	1571.10	1662.60	1662.60	1745.70	1920.60	2052.60	2052.60	2052.60	2052.60
0-6	1043.70	1147.20	1221.90	1221.90	1221.90	1221.90	1221.90	1221.90	1263.30	1463.10	1537.80	1571.10	1662.60	1603.30
0-5	834.60	980.70	1047.90	1047.90	1047.90	1047.90	1080.30	1137.90	1213.80	1304.70	1379.70	1421.10	1471.20	1471.20
0-4	704.10	856.50	914.40	914.40	930.60	972.30	1038.30	1097.10	1147.20	1197.00	1230.30	1230.30	1230.30	1230.30
0-3[2]	654.30	731.10	781.20	864.90	906.00	938.70	989.10	1038.30	1063.80	1063.80	1063.80	1063.80	1063.80	[illegible]
0-2[2]	524.40	622.80	748.20	773.10	789.30	789.30	789.30	789.30	789.30	789.30	789.30	789.30	789.30	789.30
0-1[2]	450.60	499.20	622.80	622.80	622.80	622.80	622.80	622.80	622.80	622.80	622.80	622.80	622.80	622.80

[1]While serving as Chairman of the Joint Chiefs of Staff, Chief of Staff of the Army, Chief of Naval Operations, Chief of Staff of the Air Force, or Commandant of the Marine Corps, basic pay for this grade is $3,000.00 regardless of cumulative years of service.

[2]Does not apply to commissioned officers who have been credited with over 4 years active service as enlisted members.

COMMISSIONED OFFICERS WITH OVER 4 YEARS ACTIVE SERVICE AS AN ENLISTED MEMBER

Pay Grade	Under 2	Over 2	Over 3	Over 4	Over 6	Over 8	Over 10	Over 12	Over 14	Over 16	Over 18	Over 20	Over 22	Over 26
0-3	0.	0.	0.	864.90	906.00	938.70	989.10	1038.30	1080.30	1080.30	1080.30	1080.30	1080.30	1080.30
0-2	0.	0.	0.	773.10	789.30	814.20	856.50	889.80	914.40	914.40	914.40	914.40	914.40	914.40
0-1	0.	0.	0.	622.80	665.10	690.00	714.60	739.80	773.10	773.10	773.10	773.10	773.10	773.10

QUARTERS AND SUBSISTENCE ALLOWANCES

Pay Grade	QUARTERS ALLOWANCE		SUBSISTENCE ALLOWANCE
	With Dependents	Without Dependents	With or Without Dependents
0-7 thru 0-10	$201.00	$160.70	$47.88
0-6	170.10	140.10	47.88
0-5	157.70	130.20	47.88
0-4	145.05	120.00	47.88
0-3	130.05	105.00	47.88
0-2	120.00	95.10	47.88
0-1	110.10	85.20	47.88

TABLE 3

AVERAGE TAX ADVANTAGE BY PAY GRADE

PAY GRADE	AVERAGE TAX ADVANTAGE	
	Annual	Monthly
O-10	$2843.	$236.94
O-9	2180.	181.67
O-8	1553.	129.42
O-7	1215.	101.25
O-6	918.	76.50
O-5	750.	62.50
O-4	617.	51.42
O-3	419.	40.92
O-2	413.	34.42
O-1	333.	27.75

SOURCE: <u>Active Duty Compensation</u>, p. 42.

from using the exchanges in the range of $131 to $231, depending upon the size of his family. Commissary store savings to the same officer range from a low of $83 to a high of $261 annually, depending on family size again. Tables 4 and 5 include the ranges of savings for other pay grades.

Breakdowns of medical expenses were not provided by the Hubbell staff, but Table 3-6 of their report[6] indicates that the cost to the government for providing medical benefits to the military establishment is 400 per cent higher than the combined exchange and commissary costs to the government. No such 400 per cent increase in benefits received by an officer and his dependents is claimed although in individual cases this may in fact be true. Child birth and extended illness are two examples of the value of this benefit for which any conservative estimate would be impossible to evaluate. The relatively new Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) authorizes the use of civilian facilities where military facilities or services are inadequate. There is a charge to use CHAMPUS but it is relatively nominal.

Deferred Compensation

The imputed retirement contribution of an officer is determined by years of service and varies annually from $302 to $701. The cumulative imputed contribution, as is shown in Table 6, amounts to over $10,000 by the nineteenth year of service.

---

[6] Ibid., p. 39.

TABLE 4

ESTIMATED ANNUAL VALUE OF EXCHANGES
BY AFTER-TAX CASH INCOME AND FAMILY SIZES

ANNUAL AFTER-TAX CASH INCOME	APPROXIMATE[a] PAY GRADE	ESTIMATED ANNUAL VALUE					
		Family Size					
		1	2	3	4	5	6+
$6,375 to $7,975	0-1 & 0-2	$131	$184	$213	$217	$222	$231
$7,975 to $10,630	0-1 thru 0-3	$139	$211	$253	261	$275	$288
$10,630 to $15,945	0-3 thru 0-6	$179	$236	$303	$343	$329	$320
Over $15,945	0-5 thru 0-10	$256	$336	$385	$387	$481	$509

[a]Adjusted to reflect 1 January 1971 basic pay rates.

SOURCE: Active Duty Compensation, p. 107.

TABLE 5

ESTIMATED ANNUAL VALUE OF COMMISSARY
BY AFTER-TAX CASH INCOME AND FAMILY SIZES

ANNUAL AFTER-TAX CASH INCOME	APPROXIMATE[a] PAY GRADE	ESTIMATED ANNUAL VALUE					
		Family Size					
		1	2	3	4	5	6+
$6,375 to $7,975	0-1 & 0-2	$ 83	$151	$194	$219	$242	$261
$7,975 to $10,630	0-1 thru 0-3	--	$165	$217	$240	$278	$305
$10,630 to $15,945	0-3 thru 0-6	--	$186	$235	$271	$297	$345
Over $15,945	0-5 thru 0-10	--	$252	$259	$315	$396	$416

[a]Adjusted to reflect 1 January 1971 basic pay rates.

SOURCE: Active Duty Compensation, p. 108.

TABLE 6

IMPUTED RETIREMENT CONTRIBUTION

COMPLETED YEARS OF SERVICE	AVERAGE ANNUAL IMPUTED CONTRIBUTION	CUMULATIVE IMPUTED CONTRIBUTION
0	$302	$ 302
1	322	624
2	355	979
3	434	1,413
4	472	1,885
5	489	2,374
6	512	2,886
7	514	3,400
8	526	3,921
9	539	4,465
10	556	5,021
11	555	5,576
12	572	6,148
13	577	6,725
14	599	7,324
15	610	7,934
16	650	8,584
17	644	9,228
18	676	9,904
19	701	10,605

SOURCE: Active Duty Compensation, p. 48.

Other Benefits

Other benefits include the privilege to use special services, officers clubs, to receive legal and tax assistance, space available travel, FHA in-service insured loans (where FHA pays 1/2 per cent of the mortgage interest while the member is on active duty), use of military theatres, libraries, etc., low-cost Servicemen's Group Life Insurance protection, and employment assistance when retirement is approaching.

Selected Profiles of Officer's Income

After consideration of all benefits received by military officers, can the question be answered, just how much do military officers earn? This question can be answered and must be answered in a general sense due to the various life styles involved.

Profiles of selected pay grades with commensurate longevity have been prepared as Officer Income Charts and are shown in Tables 7 through 10. These profiles are of officers who receive standard basic pay and no special or hazard duty pay. Exact quantification is used wherever possible in the tables. Basic pay, quarters and subsistence allowances, tax advantage, and imputed retirement contributions are all "exact" even though it is obvious that the tax advantage will vary with individual tax units. The quantification of medical benefits might at best be described as an educated guess. Exchange and commissary savings were taken from the appropriate columns listed in Tables 4 and 5. Other benefits such as use of officers clubs, special services,

[illegible]

[illegible]

[illegible]

[illegible]

TABLE 7

OFFICER INCOME CHART, PAY GRADE 0-3

5 Years Longevity, Age 28
Married, 1 Child

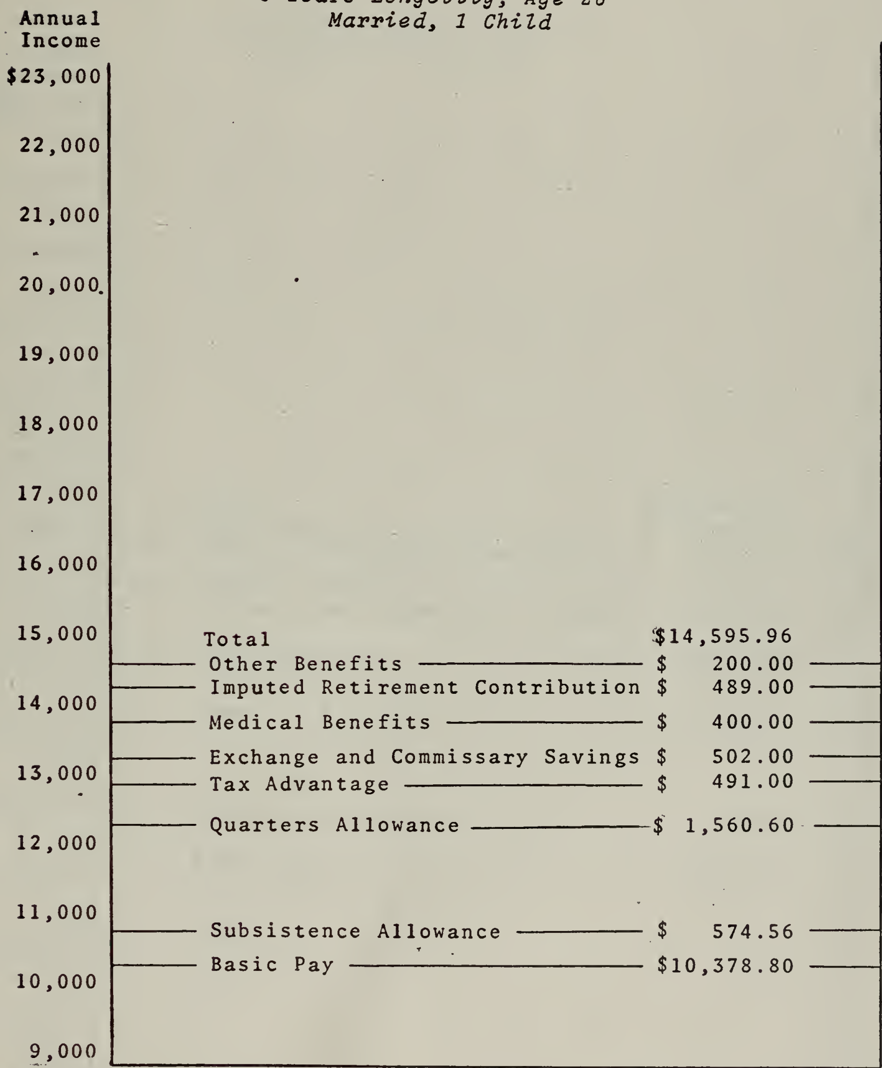


TABLE 8

OFFICER INCOME CHART, PAY GRADE 0-4

10 Years Longevity, Age 33
Married, 2 Children

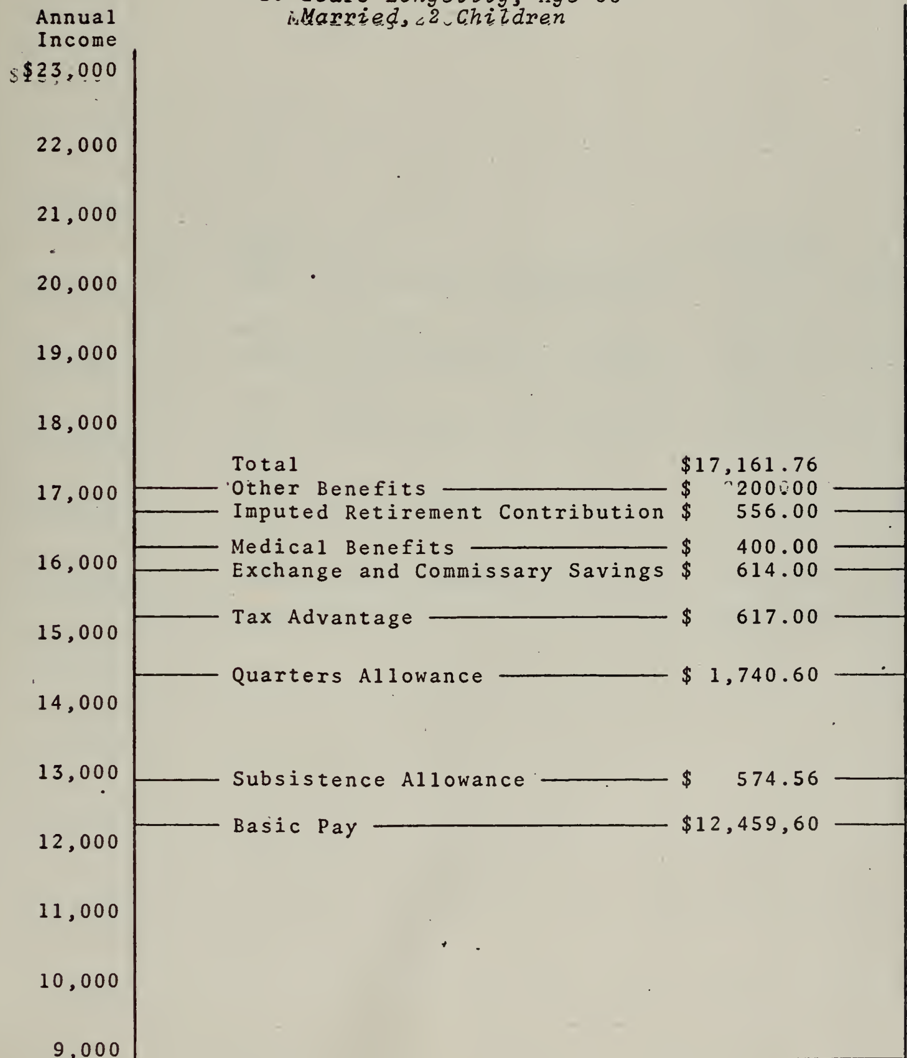


TABLE 9

OFFICER INCOME CHART, PAY GRADE 0-5

15 Years Longevity, Age 37
Married, 2 Children

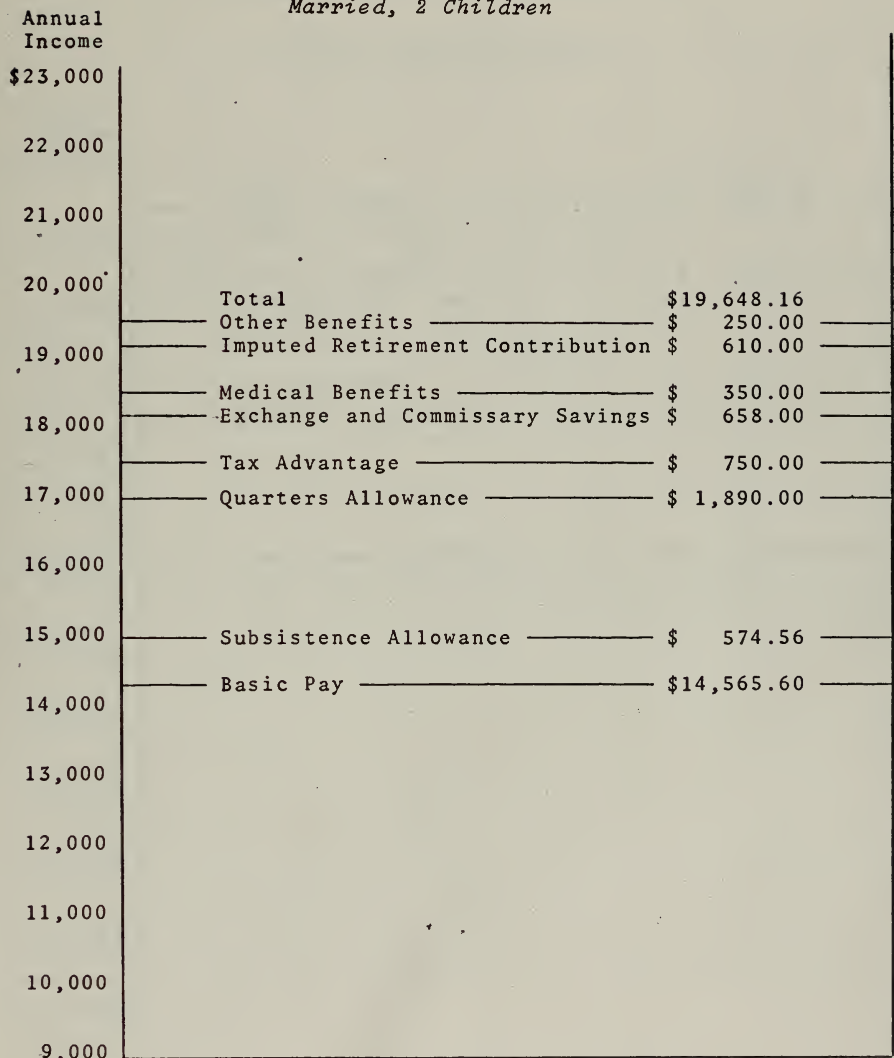


TABLE 10

OFFICER INCOME CHART, PAY GRADE 0-6

19 Years Longevity, Age 43
Married, 2 Children

Annual Income

$23,000
22,000
21,000
20,000
19,000
18,000
17,000
16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000

Total	$22,545.96
Other Benefits	$ 300.00
Imputed Retirement Contribution	$ 701.00
Medical Benefits	$ 300.00
Exchange and Commissary Savings	$ 650.00
Tax Advantage	$ 918.00
Quarters Allowance	$ 2,041.20
Subsistence Allowance	$ 574.56
Basic Pay	$17,053.20

FHA insured loans, etc., were most difficult to quantify because of the wide variances in their value to individual officers and dependents. In certain cases the value is zero and in others could well run into the hundreds of dollars. Again an educated guess was used to determine an average value figure.

Composition of Retirement Income and Social Security

Benefits due the military retiree are not too dissimilar than the benefits of the active duty officer, albeit considerably reduced in financial size and in preference for the use of some fringe benefits. One of the benefits to which a career officer may become entitled is retirement pay. Because of the complexity of the various options he may select for the payment of his monthly retirement pay, the following information is somewhat general. A complete explanation of retirement benefits, as well as the survivor annuity options available under the Retired Serviceman's Family Protection Plan (formerly known as the Uniformed Services Contingency Option Act) should be secured from the Personal Affairs Officer or Legal Assistance Officer in the seventeenth year of active duty service.

Generally speaking, a regular officer of a uniformed service may retire after completing a minimum of twenty years' service. His retirement pay is determined by multiplying two and one-half per cent by the number of years of service, times the monthly base and longevity pay of the highest rank held. However, retirement pay

[illegible]

[illegible]

[illegible]

cannot exceed 75 per cent of the base and longevity pay. The retirement pay of an officer who has retired on a length-of-service basis can be waived to enable him to receive any other compensation or pension that might be payable to him through the Veteran's Administration (VA). He need not waive the entire benefit payable from either source, but he can do so to the extent that an award is payable from the other source.

The Retired Serviceman's Family Protection Plan (RSFPP) permits a member of the uniformed services to choose, in lieu of full retirement pay, to receive a reduced amount of retirement pay in order to provide an annuity for eligible survivors. Options available under this plan are explained later. Tax savings which the active duty officer receives due to receipt of subsistence and quarters allowances are not followed into the retirement years.

Social Security benefits provide added old-age benefits. Social Security provides a monthly income in addition to military retirement pay and disability compensation by the VA upon the following:

If the officer is disabled;
For wife upon reaching age 62;
Upon reaching age 65 (age 62 optional at reduced amount);
For disabled children over 18 if they become disabled before age 18; and
For dependent parents.[7]

Hospitalization for the retired officer and dependents is provided on a space available basis in naval and other uniformed services' medical facilities except for

---

[7]Ashton and Mack, The Naval Officer's Guide, p. 537.

certain illnesses in which case the VA provides the hospitalization. Medical care under CHAMPUS is also available to the retired officer and dependents.

The privilege of using exchanges and commissaries continues into retirement. Officers' clubs may be used subject to the limitation of facilities.

Certain constraints also follow into retirement. The Dual Employment Statute prohibits a regular retired officer from holding a civil position with the Federal Government without forfeiting some of his retirement pay. Persons entitled to military retirement pay are also subject to the provisions of the Uniform Code of Military Justice.

Benefits that accrue equally to career officers and civilians who serve on active duty for less than the number of years required to retire are not considered in this thesis. These entitlements include eligibility for mortgages, unemployment compensation, treatment in a VA hospital if a service connected injury is involved, etc.

Benefits Due if Death Occurs While on Active Duty

An officer is entitled to burial with honors in a national cemetery. If interment is in a civilian cemetery, the branch of service concerned will provide reimbursement within certain limitations to help defray expenses. A flag will be furnished to drape the casket and is presented to the next of kin after the funeral. A headstone or grave marker will also be furnished free of cost and without application if burial is in a government cemetery, or by application if the burial is in a civilian cemetery.

The eligible survivors are entitled to a death gratuity which is determined by the officer's base pay rate and specialty pay, if any. All officers except for the most junior officer's survivors would receive the maximum amount allowable which is $3,000.

The officer's designated beneficiary also receives any arrears in pay due the officer and payment for leave accumulated (up to a maximum of sixty days).

Social Security provides a lump-sum payment of $132 minimum and $255 maximum. In addition, monthly payments will be made to the widow if she has in her care one or more of the officer's children who are entitled to monthly Social Security benefits (except when the children are eighteen years old or over but may be if they are attending school), or if the widow is age sixty-two or over (or age sixty and accepts reduced benefits) whether or not there is a child entitled to payment. The widow may elect retirement at age sixty-two based on her own past earnings, if she is qualified, in lieu of one based on her husbands earnings. If the widow has current earnings or earned income exceeding $1,680 a year, she may lose some Social Security benefits.

The family is entitled to continued base medical care, commissary and exchange privileges, and entitlements under CHAMPUS.

Transportation for the widow and children and shipment of personal effects and household goods to place of residence, or storage of household goods is provided for. Normally this must be accomplished within one year after death of the officer. The

proceeds of the National Service Life Insurance (NSLI) will be paid if the policy is still in force and survivor is named as beneficiary. It will be paid only in monthly payments if so designated previously by the serviceman or paid in either lump sum or monthly payments at the option of the beneficiary providing the officer requested lump-sum payment. If the "in-service waiver" is in force on the NSLI policy, death proceeds will still be paid as indicated; however, the survivors will be disqualified from receiving the Dependency and Indemnity Compensation (DIC) payments under Public Law 881. They would be eligible for the benefits of the death compensation laws in effect prior to Public Law 881, which usually are less. Officers holding NSLI had to be on active duty prior to 25 April 1951 and had not subsequently terminated their coverage. Maximum amount of coverage is $10,000.

Entitlement to DIC payments may be the most important entitlement of all to the widow and remaining dependent survivors. The rate of DIC payment is based on the officers pay grade at the time of death. The monthly rate by pay grade is shown in Table 11.

If the officer's only survivors are his child(ren) the survivor benefits differ in some respects. The primary differences concern the amount of support furnished by DIC payments. In general they provide less than if the widow were alive and required support. Some differences in the amount the children receive also results when and if the widow remarries.

TABLE 11

DEPENDENCY AND INDEMNITY COMPENSATION TABLE

PAY GRADE	DIC MONTHLY RATE
0-1	$211
0-2	218
0-3	234
0-4	247
0-5	272
0-6	306
0-7	332
0-8	363
0-9	390
0-10	426

Source: "Federal Benefits for Veterans and Dependents," Veterans Administration, March, 1970 (Pamphlet), p. 46.

The rate is increased by $20 for each child under eighteen years of age. The entitlement to the widow, by DIC, stops if she remarries. The benefit is somewhat less if the only survivors are dependent parents or parent.

The survivors will receive the proceeds of Servicemen's Group Life Insurance if survivor is named as beneficiary and if the officer did not voluntarily decline this coverage. It will be paid in lump sum or in thirty-six equal monthly installements as designated by the officer. If the officer did not designate, or if he designated lump-sum payment, beneficiary may elect either of these modes of payment. If no beneficiary is designated by the officer, death proceeds will be paid in order of beneficiary precedence established by the VA. Maximum coverage is $15,000.

Benefits Due When the Retired Officer Dies

If the retired officer dies from a service-connected disease or injury, his survivors will receive compensation coverage from the VA under DIC. However, most retired officers die from non-service connected diseases or injury and their survivors will not be protected under this Public Law. If the officer has not provided for his survivors by selecting an option under RSFPP or made other provisions for them, then the retirement check will cease with death. In general, he may select one or more of the following options, but must do so either prior to completing eighteen years' service or three years before his retirement begins. No changes will be effective unless he has more than three years yet to be served. For the widow and/or children

to qualify under an annuity option selected, death of the serviceman must occur after his retirement pay begins, and the wife and/or children must survive him. The four annuity options are as follows:

1. To provide an annuity for the widow which terminates upon her death or remarriage, whichever occurs first.

2. To provide an annuity for a child or children which terminates when there is no surviving child unmarried and under eighteen years of age. (Continues after age eighteen if child is physically or mentally handicapped and, as such, incapable of self-support.)

3. To provide an annuity for the widow and surviving children which terminates either upon the death or remarriage of the widow, or, if later, when there is no surviving child unmarried and under eighteen years of age. (Continues after age eighteen if child is physically or mentally handicapped and, as such, incapable of self-support.)

4. In combination with one or more of the three foregoing options, provides for increasing the retirement income to the full amount if the person or persons designated to receive the annuity live until member's retirement date but thereafter predecease him. (Options 1, 2, or 3, if not in combination with Option 4, provide that the reduced retirement income, in accordance with the option elected, continues to him even though all persons designated by him to receive an annuity should predecease him.)

In electing one or more of the above annuities, the officer can specify that the annuity be payable in an amount equal to one-half, one-quarter, or one-eight of the

reduced amount of the retirement pay. However, even though more than one annuity is selected, the combined amounts cannot exceed 50 per cent of the amount of the officer's reduced retirement pay. The cost of the annuity program selected is paid by the officer out of his retirement pay. Cost is determined by the option or options selected and is based on the age of the retiring member, the difference between his and his wife's age, and his and his youngest child's age, all at the time of his retirement.

It is generally recognized that options available under RSFPP are expensive ones and the law has been modified seven times in its eighteen years of existence. Legislation is pending (February 1971) to replace the present system primarily because fewer than 20 per cent of all eligible retirees use it.[8]

Social Security provides survivor benefits similar to those provided the survivors of deceased active duty officers.

Other benefits due the active duty survivors are substantially the same as for the retired officer's survivors.

[8]Robert S. Horowitz, "Survivor Benefits Overhaul Pushed," Navy Times, February 3, 1971.

CHAPTER III

FINANCIAL REQUIREMENTS OF THE ESTATE

General Financial Requirements

As discussed in Chapter II, viable estate planning for the career military officer must consider all financial resources. It must also provide for all perceivable requirements.[1] These requirements may be classified as either cash needs or income needs. Under the classification of cash needs provision must be made for a fund commonly referred to as the "cleanup" fund by the insurance trade. This fund is used to settle debts, funeral expenses and taxes. Consideration for estate settlement fees, including those of a lawyer are in order if the estate is sizeable. If the estate is small, then \$2000-\$3000 is normally considered adequate by estate planners.

A readjustment fund should be provided in the estate plan because time for readjustment must be allowed a family faced with the economic and psychological problems resulting from the death of the father and chief income producer. Making the important decisions that have to be made should not be made in haste. For example, if the family owns a home, a decision will have to be made to stay or move, whether to sell or rent it. Perhaps the widow or the older children will be required

---

[1] Nuccio, The New York Times Guide to Personal Finance, pp. 63-66.

[illegible]

[illegible]

[illegible]

[illegible]

to seek employment. The readjustment fund would give the family a chance to catch their breath during a most trying emotional experience. This fund should equal at least six months to a years family income less those expenses the breadwinner would have used to earn that income and less taxes.

If the family owns a home, an allowance for full repayment of the mortgage would provide the family with relatively low cost housing. If a decision to sell is made, elimination of high monthly mortgage payments should relieve the pressure to sell quickly and perhaps will prevent a loss. A subsequent decision to sell the house would result in the entire sales price becoming available for other needs of the family.

Additionally, some special funds need to be considered. An objective of a special fund might be education of the children through the college years. Naturally the fulfillment of such a goal must come after provision for the basic needs such as food and shelter for the family.

Lastly the plan must provide income for the widow and children and later for the widow alone when the children are on their own. It is possible that she may not need the income because of remarriage or by having secured employment, but it must be remembered that the employment market and income potential for a middle-aged woman is not large.

Profile Estate Requirements

The best way to illustrate the resources available and requirements of the estate is to use the profile estates established in Chapter II. For example, if the O-3 officer were to die at the end of 1971 his survivor might have a list of financial requirements as follows:

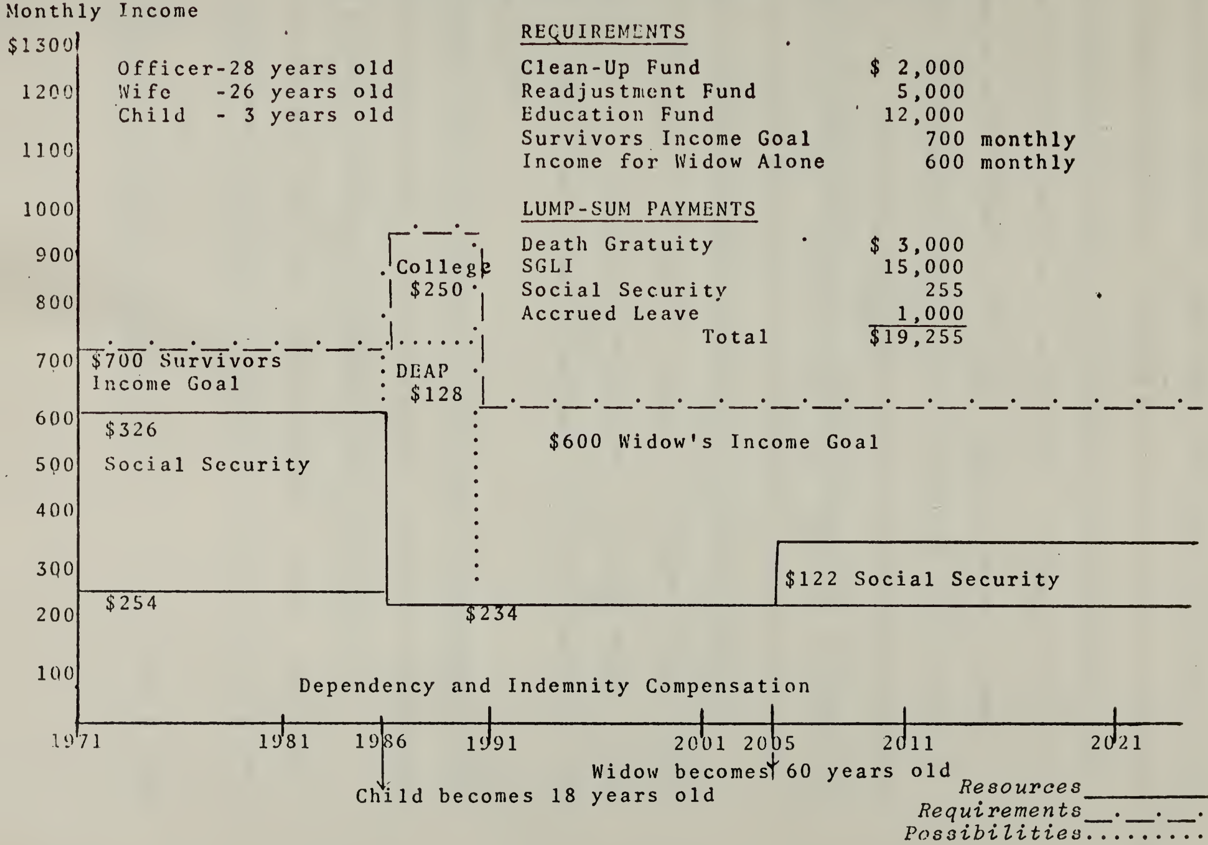
$ 2000	Clean up Fund
5000	Readjustment Fund
12000	Education Fund
8400 annually	Income for wife and child
7000 annually	Income for wife after child reaches age 18

Table 12 summarizes these financial requirements and resources. Certain alternatives are available for this estate, of course. If the child in fact goes to college then DIC and Social Security Benefits continue until age twenty-two, instead of stopping at age eighteen. The Dependents Educational Assistance Program (DEAP) of the VA pays a monthly assistance of $175 for a full time student and $128 for a student going to school nine months each year. If on the other hand, the child does not attend college then the $12,000 education fund can be used for other purposes and the widow's monthly income requirement drops to $600 because presumably the child will be working and self-supporting.

The lump sum payments satisfy all the requirements of the estate's special

TABLE 12

FINANCIAL REQUIREMENTS AND RESOURCES: PAY GRADE O-3



REQUIREMENTS

Clean-Up Fund	$ 2,000	
Readjustment Fund	5,000	
Education Fund	12,000	
Survivors Income Goal	700	monthly
Income for Widow Alone	600	monthly

LUMP-SUM PAYMENTS

Death Gratuity	$ 3,000
SGLI	15,000
Social Security	255
Accrued Leave	1,000
Total	$19,255

funds and what is excess to the requirements could be used to fill the gap in funds requirements for daily living. The largest gap, aptly known as the "widow's gap,"[2] occurs when the child reaches 18 (or 22 provided the child has been a full-time student). The widow's entire social security support is terminated at that point and remains terminated until she is 60 years of age when she has the option of receiving a slightly reduced payment for the rest of her life. She may decide to wait until she is 62 and receive about $20 a month more but her financial condition at age 60 will probably determine which option she will exercise. The estate plan must concentrate on the area that is non-supported by the resources of the estate to ensure that the widow is protected against privation for the rest of her life.

Another factor not considered often enough is the relatively steady inflation that the U.S.A. has experienced the last thirty years. Certainly nothing is on the horizon to stop the trend, so that additional funds should be provided for later years if at all possible.

Profiles similiar to the paygrade O-3 officer have been prepared for the other "strawmen" officer profiles. See Tables 13, 14, and 15 for visual descriptions of the known financial resources and requirements of these mythical officers.

In attempting to satisfy basic estate requirements, provision must be made for changing family circumstances, for changes in income goals and for the good

---

[2]The Time-Life Book of Family Finance (New York: Time-Life Books, 1969), p. 128.

TABLE 13

FINANCIAL REQUIREMENTS AND RESOURCES: PAY GRADE O-4

Officer-33 years old   Child-8 years old
Wife -33 years old   Child-5 years old

REQUIREMENTS		
Clean-Up Fund	$ 2,500	
Readjustment Fund	6,000	
Education Fund	20,000	
Survivors Income Goal	800	monthly
Income for Widow Alone	600	monthly
LUMP-SUM PAYMENTS		
Death Gratuity	$ 3,000	
SGLI	15,000	
Social Security	255	
Accrued Leave	1,500	
Total	$19,755	

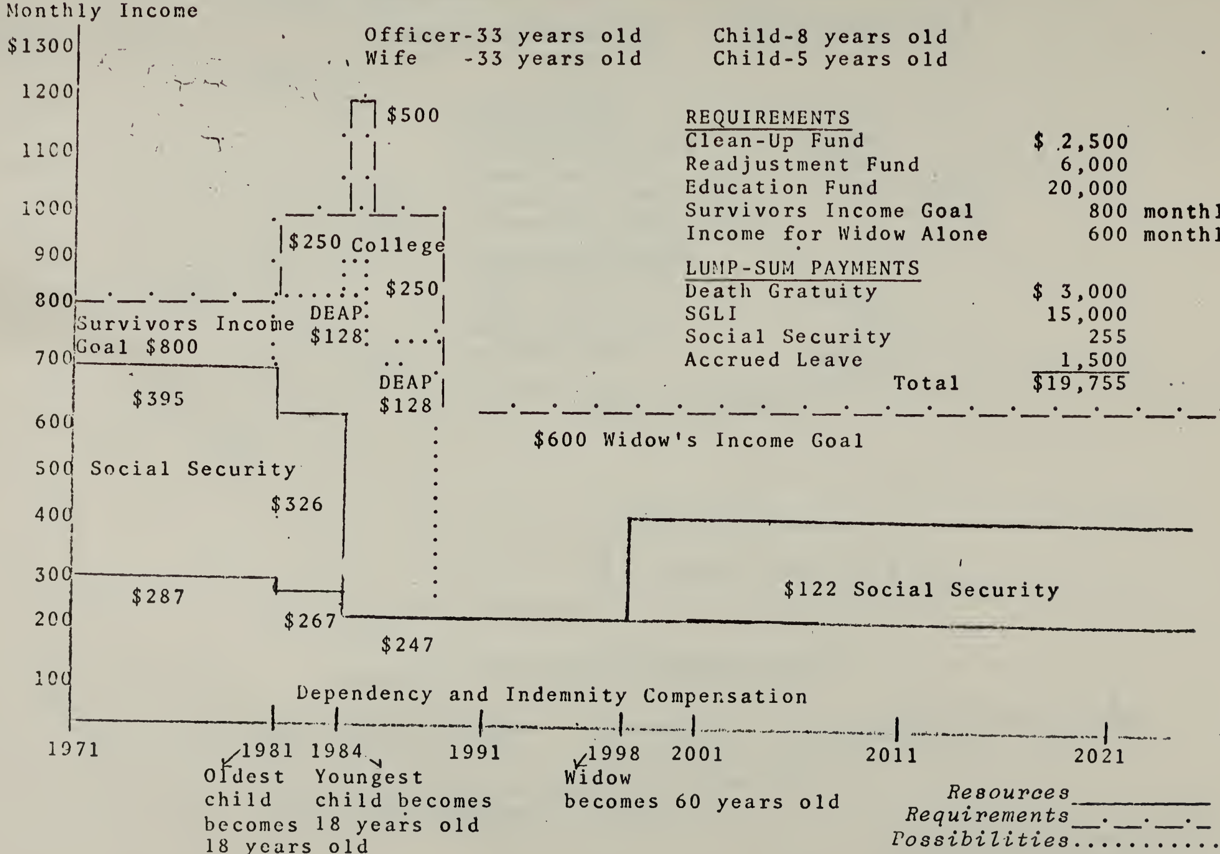


TABLE 14

FINANCIAL REQUIREMENTS AND RESOURCES: PAY GRADE O-5

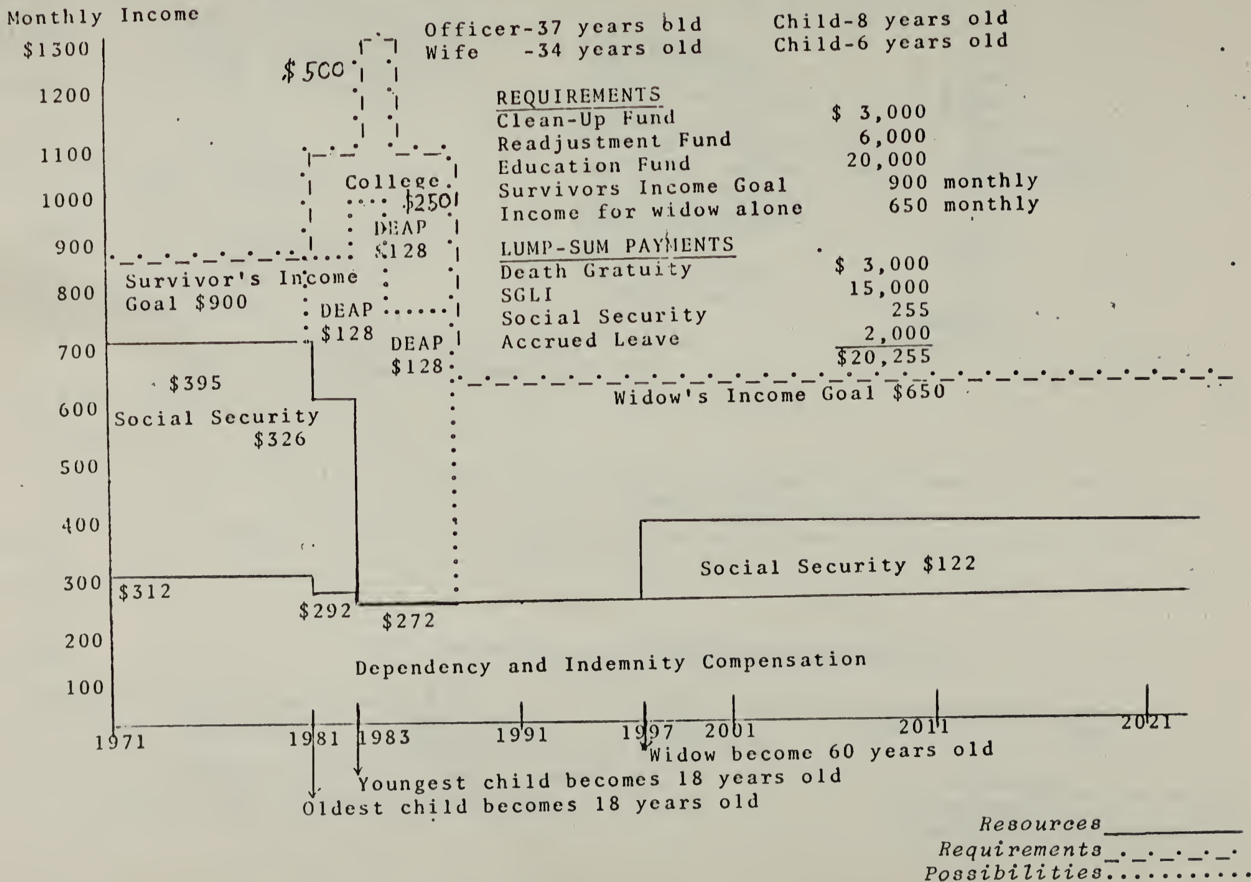
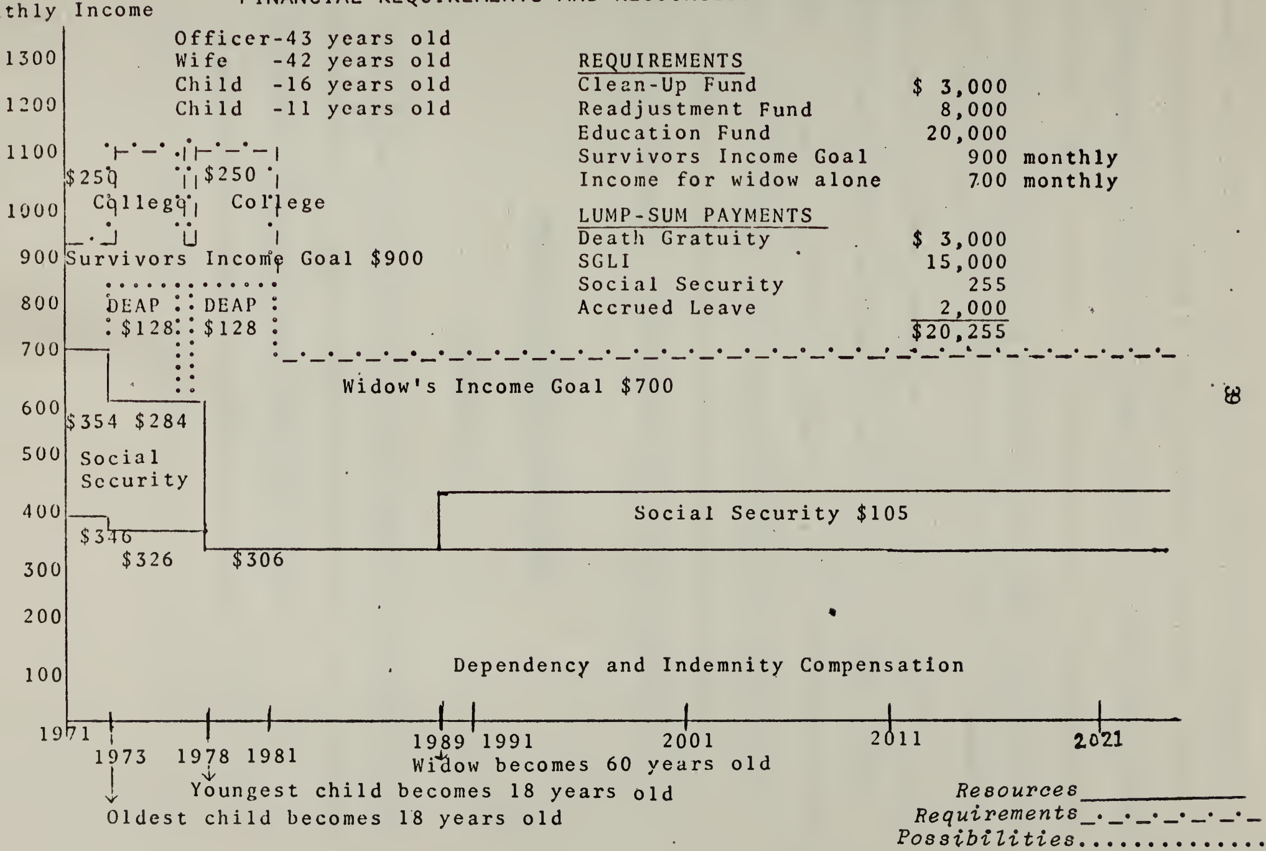


TABLE 15

FINANCIAL REQUIREMENTS AND RESOURCES: PAY GRADE O-6



possibility that the officer will, in fact, not die on active duty and will therefore have retirement income to assist in meeting the estate's requirements. These retirement resources could have been plotted on Tables 12 through 15 but the tables already appear rather complicated. For convenience sake it will be assumed that all the officers will not select any of the options available under RSFPP and all plan to retire after 20 years service. The O-6 officer will be eligible for a monthly check of $785 a month and it will be assumed that the other officers retire as O-5's with a monthly income of $711. Being vigorous men these officers will seek a "second career" and it can be reasonably assumed that their minimum financial requirements will be met by a combination of retirement income and second career job income. The only minimum requirement not satisfied then is ensure that the family can meet its income and special fund needs if the officer should prematurely die.

Meeting the Minimum Requirements

Life Insurance

Life insurance will be initially used to fill the gaps in the estate plans left by insufficient resources. A program will be developed to replace part of the estate with investments as the earning power of the officer increases.

It appears that the Department of Defense encourages the purchase of life insurance. To illustrate this the Department of Defense Directive number 1344.1

of March 3, 1964 states in Paragraph IV B: "A sound life insurance program suitably underwritten to meet the varying requirements of the individual is encouraged by the Department of Defense."

To further emphasize the Department of Defense's recognition of the value of a well-planned estate, members of the armed services are permitted to pay commercial life insurance premiums through allotments from their pay.

The primary function of life insurance is to protect the estates survivors against the probable financial loss attendant with the death of the breadwinner; but life insurance policies may do more than furnish just protection. One authority states that there are four basic types of Life Insurance which are called term, whole or straight life, limited payment life, and the endowment.[3] Another authority maintains that insurance policies may be divided more fundamentally into just two basic types. All other types, it is maintained, are some variation or combination of these two basic types. Definitions of these types are:

> Term insurance. A term insurance policy insures your life--and that is all it does--for a certain set "term" of years--five years, perhaps--and then it must be renewed.
> Cash-value insurance. This is insurance that remains in effect, not for a certain term of years, but until you discontinue it or its benefits are paid. In addition, part of the premium is set aside for you in what amounts to a savings account; this money belongs to you whether you keep the policy in force or not. The many common varieties of life insurance--ordinary life (also called whole life or straight life) policies, endowment policies, retirement policies--are simply forms of cash-value insurance: basic insurance plus savings accounts.[4]

---

[3]Nuccio, The New York Times Guide to Personal Finance, p. 75.

[4]The Time-Life Book of Family Finance, p. 108.

Term Insurance

Perhaps the closest thing to "pure" insurance is the term policy. It incorporates no savings feature and is normally in force for a limited period of time. The insurance company guarantees to pay a specified sum of money to the deceased's beneficiaries if the policy holder dies during the "term" of the policy. On the other hand if the insured dies after the expiration of the "term" then the beneficiaries receive nothing. As noted earlier the term of the policy may be for varying periods but it is usually for five years or multiples thereof. Term policies normally do not protect the insured passed the age of sixty-four. Because the term policy has no savings feature a greater amount of life insurance protection can be purchased with a given amount of dollars.

Cash Value Insurance

The principal type of cash value insurance is called ordinary or whole life insurance. This insurance pays the face value of the policy whenever the insured dies. Additionally, a certain portion of the premium is saved each year and the policy after the first year or two has some cash value. This, in effect, is a type of savings account. The policyholder may withdraw this savings but to do so he must cancel his policy. He may also apply this amount as a single premium to obtain paid-up insurance for a specified (but reduced) amount or apply the cash

value to obtain extended term insurance for the full face amount of the policy but for a limited term. The policyholder may borrow against the value of the cash value without cancelling the policy.

Quantifying the Minimum Requirement

Both types of insurance have their proponents. Service officers can satisfy their initial insurance needs through several service associations which charge less for insurance coverage than most commercial firms, presumably because of the preponderance of youthful healthy members.

A review of Table 12 shows that if the O-3 officer died in 1971 then the lump-sum payments are sufficient to satisfy all but the family's annual income requirements. This income gap for the O-3 officer's survivors amounts to $120 a month for 15 years, assuming the child will attend college until age 22 and receive additional assistance from the VA through DEAP. During these four years the widow will receive adequate income provided the college fund is available to satisfy college bills. If the child does not attend college, the widow's support requirement increases to $364 a month for 19 years subsequently reducing to $244 a month for the rest of her life. For planning purposes the O-3's widow will be supported until age 90 which means that $244 a month will be needed for her last 30 years. The income requirements can be derived as follows:

1971-1986	$120	X	180 months	=	$21,600
1987-2006	364	X	228 months	=	82,992
2007-2036	244	X	360 months	=	87,840
					$192,432

While $192,000 seems like a lot of money it must be remembered that not all of the money will be used at once and that money not used immediately can be invested to earn additional funds. In 1971, for example, the estate only requires about two and one half cents for each dollar required in the widows 90th year provided the two and a half cents has been invested at 6 per cent interest compounded annually. This calculation can be verified from any present value table of compound interest.[5]

Also by use of the present value table at 6 per cent interest compounded annually it can be calculated that if this officer died at the end of 1971 then $42,300 would be required to satisfy the family's minimum income requirements. In other words the insurance policies and investments he had in 1971 must total at least $42,300. The widow ostensibly would take these funds and place them in a savings and loan institution at 6 per cent compounded annually (or compounded more often if possible) and withdraw the "gapped" funds she requires annually as indicated from Table 12. She can continue doing this until age 90 when this self-planned annuity would cease and she would only be left with social security support. In all likelihood she will have died before that time. If desired, the estate could have been increased slightly to provide funds until

---

[5]Jules I. Bogen, Financial Handbook (New York: The Ronald Press Company, 1964), p. 27.27.

age 100 or to ensure that inflationary effects are provided for.

To satisfy this income requirement for $42, 300 (which it must be remembered is over and above the special funds requirements which have been satisfied by the lump-sum payments), the O-3 officer would probably procure the $13,000 ordinary life policy sold by the Navy Mutual Aid Society (since O-3 is in the Navy). Other services have similar associations that offer low cost insurance. At O-3's age of 28 annual premiums amount to $129.00. He would also investigate and probably purchase a $20,000 Group Life Insurance Plan with the Armed Forces Relief and Benefit Association (AFRBA), which costs approximately $60.00 net per year. He would then have to decide on what type of insurance policy to buy to make up the $9, 300 difference between requirements and provided resources. Before doing that though some additional calculation reveals that if O-3 lived until 1985 and died in that year with only $42, 300 insurance in effect (other than the lump-sum benefits), the $42, 300 would be insufficient to get the survivors through to the widows 90th birthday. This is because the greatest annual withdrawals to the annuity occur between 1987 to 2006. The amount of those withdrawals will in effect "wipe out" the annuity in 17 years leaving the years 2005 and onward for the widow to live on $122 a month social security.[6] A little additional calculation using the present value tables reveals that the worst possible financial situation for this officer's survivors

---

[6]Calculations are based on present value tables in Bogen, Financial Handbook, p. 27.27 and Robert N. Anthony, Management Accounting (Homewood, Illinois: Richard D. Irwin, Inc., 1970), Appendix Tables A and B.

result if he died in 1986. The survivors would need $61,000 protection then versus the $42,000 that was previously calculated. The decision then is how to protect the family up to the $61,000 level.

A decision is made to divide the remaining insurance requirements and buy some term insurance and some ordinary life. Since the requirement is for $61,000 less the amount already purchased, ($33,000 of Navy Mutual Aid and AFRBA, or a remaining requirement of $28,000), a 20 year term policy for $15,000 is purchased from a commercial insurance company. The premiums will be about $70 annually. Additionally, an ordinary life policy is purchased from a commercial insurance firm for about $180 annually with a face policy value of $13,000. It must be realized that when the 20 year term policy expires the estate will lose some coverage unless a savings and investment program is established. A determination is made that $25 a month can be saved and that when the next pay raise arrives, one-half of that can also be saved.

The premiums for the four insurance policies which yield the planned protection to the survivors amount to $439 annually (less than $37 monthly) plus a savings program starting with $25 a month. If all goes according to plan and additional funds are saved, an investment program can be instituted that hopefully will lift the survivors over the minimum income levels they have set for themselves.

Since it is more likely than not that the officer will live to collect some retirement checks, the investments hopefully will give additional security to those retirement years.

Similar estate calculations could be made for the other three officer profiles to show that it doesn't take a great deal of money to meet the minimum requirements of the estate when insurance is used as a basic protection tool.

Investing for Retirement

By saving money on a regular basis two estate functions were being satisfied. One function was the compensation for the day when the term policy expires (20 years) and the other function was the building of equity in the officer's estate. It needs to be recognized that the cash value of an ordinary life policy builds at only two and one half per cent compounded annually.[7] If the O-3 officer can better his return while still providing protection for his family then by all means another investment avenue should be selected. However, a combination of both term and ordinary life policies was suggested because human beings may forego voluntary savings more easily than foregoing an insurance policy premium. In effect the O-3 officer is paying a little extra (by earning a lesser return on his money) by having the insurance company save money for him when any policy other than term is purchased.

[7]The Time-Life Book of Family Finance, p. 115.

[illegible]
[illegible]
[illegible]

[illegible]

[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]

Saving Money

An interesting account of how an individual may buy term insurance and save the difference in premiums (by not buying the same amount of cash value insurance) is reproduced as follows:

> Jones has calculated that he needs $50,000 worth of insurance. He gets rates from half a dozen companies for an ordinary-life type of policy, and finds that, at his "insurance age" of 30, most quote around $15 a thousand. At one company's premium of $15.02, a $50,000 ordinary-life policy would cost him $751 a year.
>
> Next he investigates term insurance. After a good deal of work with pencil and paper he concludes that his best buy is the type known as "five-year renewable and convertible." Such a policy can be converted in later years from term to ordinary life, and it is also guaranteed to be renewable at the end of each five-year period, until the policyholder is 65 (most companies) or 70. Thus Jones is assured of being able to continue his insurance coverage to retirement age or past, regardless of what may happen to his health and insurability.
>
> He finds he has to do some pretty intensive shopping. Not all companies sell term policies that are both renewable and convertible. Premiums vary from more than $8 a thousand down to $3.85 per thousand at his age, or $192.50 for the $50,000 policy he wants.
>
> Every insurance man Jones talks to gives him a stern lecture about the undesirable features of term insurance. He understands that each time he renews--every five years, that is--the premium will increase. Not so much at first, but by the time he is 60, the cost of the $50,000 policy he is considering will have shot up to around $1,350 a year--about twice as much as the premium on the ordinary life policy. Furthermore, once he is 65 the insurance protection will cease. This term policy cannot be renewed again at that age, so if he lives a long life, he will be left without insurance after his retirement. And his term policy would not have a loan value that he could draw on in case of emergency. Nevertheless, Jones takes out $50,000 of term insurance with the company that quoted $3.85 a thousand.
>
> His yearly premium, $192.50, represents a saving of $558.50 in comparison to the $751 an ordinary-life policy would cost. So at the time Jones pays his first premium he sends the company its $192.50 and puts the difference in a savings account, where his $558.50 will earn 5 per cent interest, compounded quarterly.

Every year, during the first term of five years, he does the same. When renewal time rolls around he has $3,249.42 in the savings account--which he has earmarked as his insurance account, not to be dipped into under any circumstances. Having this much cash put away means that Jones doesn't need the full $50,000 worth of insurance when he renews, because he has more than $3,000 worth of protection in the bank. He's doing, in fact, just what an insurance company would do if it had issued Jones a cash-value type of policy. As the cash value builds up, it's there to be applied toward paying the death benefit if Jones should die. If the cash value is $3,000, the company must provide only $47,000 of death-benefit coverage out of its reserves. Jones does the same thing for himself. He renews only $47,000 worth of his term insurance.

This holds his annual cost down, even though the renewal premium has increased to $4.29 a thousand. For the next five years he sends the company a check for $201.82 each year. The difference between this amount and what he would have to pay for ordinary life--his saving of $549.18--goes into the untouchable bank account. It adds up, during this second term of five years, to $3,195.19.

Meanwhile, the sum initially saved has been on deposit for five years, and with accumulated interest has grown to $4,165.88. When this is added to the $3,195.19 more recently saved, his "insurance account" shows a balance of $7,361.07. So, at age 40, Jones needs only $43,000 of term insurance when he renews. He continues in this fashion for the next 25 years, building up his self-insurance account and whittling down the amount of his policy accordingly at each renewal:

Age	Value of policies in effect	Yearly premium	Amounts for savings account	5 years' accumulated savings	Prior savings plus earned interest	Total in cash savings
40-45	$43,000	$239.79	$511.21	$2,974.28	$ 9,437.16	$12,411.44
45-50	38,000	298.19	452.81	2,634.50	15,911.93	18,546.43
50-55	31,000	358.70	392.30	2,282.45	23,777.21	26,059.66
55-60	24,000	420.66	330.34	1,921.96	33,409.45	35,331.41
60-65	15,000	394.58	356.42	2,073.69	45,296.17	47,369.87

By age 65 Jones has accumulated his own "death benefit" of nearly $50,000, and when the insurance company regretfully notifies him that he can no longer renew his term policy, it's no skin off Jones's insurance program. He has his $50,000 worth of insurance--in cash in the bank--and he no longer has to pay any premiums. If he had bought ordinary life, back there at age 30, he would also have $50,000

in insurance but he would have to continue to pay a $751 premium on it. If he now stopped paying that premium on ordinary life, giving up his policy in return for its cash surrender value, he would receive $27,300--the cash value of his $50,000 policy after 35 years.

Jones has come out at least $20,000 ahead by paying only for "pure" insurance--term--and putting the surplus into his own savings account instead of letting an insurance company accumulate the surplus for him as cash value, in a "sort-of" savings account. And this is the main argument of the critics of cash-value insurance; it's known as "buy term and invest the difference." It tends to annoy people in the insurance business. They point out that it is highly unlikely that Jones will count out his savings each time he pays a premium on his term insurance and proceed forthwith to invest it.[8]

While the previous account looks very appealing, it should be pointed out that this same authority recommends that a prudent man should buy some of each type of insurance because each serves different ends.[9] On the other hand for the officer who knows he would refrain from touching his savings, the cheapest way to accomplish his savings and protection goals is by using the method Jones used.

Investments

An exhaustive study of investments is not the purpose of this thesis. However, since few estates are built on insurance values alone some discussion of investments is in order.

---

[8] Ibid., pp. 115-117.

[9] Ibid., p. 120.

Investment objectives generally fall into three categories. These include the preservation of capital, the maximization of spendable income, or a desire to increase the value of assets by investing in common stock, bonds, real estate or other property that may increase in value. If possible it would be desirous to include all three objectives in a viable estate plan.

Mutual Funds

For the novice investor it may be well to recommend mutual funds as a first investment after protection needs have been satisfied by insurance. Certainly if our profile officers have experience in investing they will make their own investment decisions. However, most nonprofessional investors show a major weakness: they have not made a clear-cut, long-term plan of investing that will allow them to participate in the growth of the American economy and at the same time keep them out of high-risk investments.

Prudence dictates investment diversity so that the investment program is not jeopardized when one investment is dealt a severe loss. Prudence also dictates a periodic investment plan so that "dollar cost averaging" can be used against sharp market fluctuations. In effect this means that by purchasing investments periodically some will be priced lower and some higher than perhaps if they were purchased all at one time. When the price is high, it means that the value of shares previously purchased have increased in value. When the price is low, it means that the present

purchase is at a bargain price. The investor is hedged by the nature of his investment plan against the possibility that the security will move down in price dragging all his assets down if a one-time purchase is made. Lastly, prudence dictates a periodic review of the investment plan and investments themselves.

A convenient feature of many mutual funds is that they permit shareowners to receive payments from the account according to terms of a withdrawal plan. This type of account is designed for those who wish to supplement their income for current needs or to meet some special commitments. Generally, some of the capital of the account must be withdrawn to make up the payments which is a fact not to be overlooked. Nevertheless, this feature can be easily adopted to estate planning.

Monthly Investment Plan

If the investor prefers to select his own stocks then the New York Stock Exchange Monthly Investment Plan may be utilized. Under this plan, an investor may accumulate shares in a listed stock by investing as little as $40 quarterly or as much as $1,000 monthly. The commission charges range from 6 per cent for payments under $100 to 1.5 per cent on $1,000, plus the price differential if the purchase is of less than 100 share lots.

Bonds

Bonds are a type of debt security that may pay more interest than savings banks do. The federal, state and local governments as well as many corporate enterprises sell bonds of various types bearing different rates of interest. The market price for good corporate bonds fluctuates in response to variations in the current cost of borrowing money. Interest rates are determined by the demand for loanable funds for business purposes and government financial needs in relation to the supply of funds available for loans.

Homeownership

Homeownership is generally considered as an investment but recent thinking on the matter has pointed up some considerations glossed over by many real estate salesmen. One expert recommends not buying a house unless it is planned to live in it at least five years.[10] This is an almost impossible criteria to meet for most military career officers.

Another reference indicates the true cost of buying in anecodote form:

> The basic choice seems relatively simple. Should you buy a house or rent equivalent living quarters? The notion is widely held that if you pay rent you are just pouring money down a drain. Buying a house, though you must make rent-like

---

[10]Nuccio, The New York Times Guide to Personal Finance, p. 50.

mortgage payments for 25 or 30 years, is thought to be wiser. That way, you at least "have something to show" for all those years of payments. The question is how much will you have to show. Let's take a clear-eyed view of the matter--the same clear look required for all economic decisions.

First of all, let's examine the implicit assumption behind that cliche about "having something to show" for those payments. The assumption is that you can buy a house with the same amount of money you would otherwise pay in rent. Real-estate advertisements frequently make this claim. They point out that you can buy a $24,000 house with monthly mortgage payments of only $151 a month. If you've been paying $150 a month in rent, this looks mighty attractive. You can own your own home--or at least make steady monthly steps toward owning it--for only a dollar more monthly.

Unfortunately, as experienced homeowners will tell you, that $151 mortgage payment is far from the only expense you will have. You must add to it the cost of fire and casualty insurance--the bank issuing your mortgage will require this protection. Then there will be real-estate taxes. These can amount to an additional $40 or so a month. So the $151 is now up in the neighborhood of $190.

And this isn't all. Another often formidable item is operating costs. As a renter you generally do not pay for heat, probably aren't charged for water and may have other utilities furnished. But heating and water bills are usually a major expense for a homeowner. Further, you may use two or three times as much electricity for lighting and operating a house as for an apartment. You'll often have to pay for trash and garbage removal. All together, your operating costs can add 20 or 40 or even 50 per cent to your basic monthly payment. Your "rent" has now grown to perhaps $250 a month.

Then there is maintenance. This may sound like a theoretical expense, but eventually you will have to replace the screens or the hotwater heater. The National Housing Conference estimates that over the years the typical homeowner spends 2 per cent of the value of his house in annual maintenance costs. Another $40 a month, say, and the "rent" is now just under $300.

Innumerable odds and ends add still more. You'll need a lawnmower, for example, plus other tools and supplies for keeping up the grounds. Commuting costs may increase substantially when you move to an area of family homes. Often a second car seems essential.

So far, so bad. But the expenses listed above are the obvious, visible costs. Another is so well hidden that most home buyers never take it into account, but it's as real as the mortgage payment.

Let's imagine twin brothers, Dan and Sam. Each has accumulated $3,500. It is Dan's theory that owning a home is a family's best investment. So he finds a $24,000 house, makes the down payment with his $3,500, arranges for a 30-year

mortgage and moves in. He knows his out-of-pocket expenses will run to $300 a month, but he considers part of this as investment. His brother Sam does not buy a house. He says apartment living suits him fine. He finds a place nearby that meets his needs for $250 a month, and takes his $3,500 to a broker, where he invests it in good long-term growth stocks.

It should be obvious already that home-owning brother Dan has run into another hidden cost. By putting his $3,500 into his house rather than into stock, he loses the money the stock could earn over all the succeeding years. It is not an inconsiderable sum. If apartment-dwelling Sam put his $3,500 into stock with a compound growth rate of 9.3 per cent a year (a modest long-term average), he would have $46,437 at the end of 30 years, when Dan gets his mortgage paid off.

Let's look ahead 30 years and examine the brothers' finances then. Sam has paid out $90,000 in rent, but in his safe-deposit box are stocks worth $46,437. Dan has paid out $111,500 in down payment, mortgage payments, upkeep, taxes and insurance, but he has saved over $10,000 in income-tax deductions. Dan also also has a 30-year-old house, which, it we assume normal depreciation and average inflation, is probably worth about $45,000. The brothers have come out with roughly the same nest eggs--but Dan had to spend almost $10,000 more to get his.

Some people, astute and lucky buyers, have done much better than Dan--and he made out almost as well as if he had put his money in the stock market. But an investment in a home is not always as sure-fire as commonly thought. Even as a hedge against inflation it has limitations. You might be told, "owning a home protects you against the landlord's merciless rent increases." But ask anyone who has owned a house for 10 years how much his taxes have increased in that time. Ask him to get out the bills of the last 10 years to see how much more it costs him today to buy a pound of nails or a gallon of paint, to call in a plumber or someone to fix the washer or refrigerator, or to fill up the fuel tank in the basement. The landlord isn't the only one who's raising prices, and the homeowner gets his "rent" raised along with everyone else. Owning a house is an expense as much as it is an investment, and it should be viewed as both.

But that is the economic view, and in deciding how you will live, economics is only one consideration. If you're the kind that needs a lawn and a green tree or two and a basement to putter in, then a house may be a psychological necessity. Most people prefer the privacy, space and amenities of life that come with homes of their own. Such reasons for choosing a house over rented quarters are sufficient. Doing the best job of managing your money requires that you make clear-headed choices, for the right reasons.[11]

---

[11]The Time-Life Book of Family Finance, pp. 19-21.

Other Real Estate

Undoubtedly there is considerable money to be made in other types of real estate ownership and associated investments and speculations. Considerable research should be accomplished however by the estate planner prior to adding this investment technique to an estate plan since the element of risk can be considerable. Consideration of the following quote perhaps summarizes the risk involved since debt is considered to be a virtue in real estate transactions.

"The formula for profits in real estate is basically simple: (1) stay as deeply in debt as possible, and (2) make maximum use of the depreciation allowances you are permitted to take."[12]

Certainly speculation should not be attempted until the basic financial conditions have been attended to by the estate planner. Consideration should also be given to the effect of taxes on the various investments. For example, long-term capital gains are taxed at a lower tax rate than short-term capital gains. In this regard it may be wise to secure legal advice and/or tax counseling as recommended in the next chapter.

---

[12] Ibid., p. 357.

CHAPTER IV

FINANCIAL INSTRUMENTS AND TAX PLANNING

The time will come when an officer's affairs, including the results of his lifetime earnings and financial plan will be administered by others. Regardless of the estate that is left, it represents the most important financial security to his loved ones. Certainly, it is his responsibility to see that all possible is done to make certain that his wishes are carried out. A carefully worked out program will ensure that the estate's money and property go where they are intended to go and that their value shrinks as little as possible in the process. The objectives will not be achieved unless the officer can answer some very important questions.

One of the most important questions is has a will been made? If the officer dies--intestate--that is, without a valid will--the laws of the state will determine how his estate is distributed. The estate in the process will shrink in size due to a multitude of fees and other expenses that could have been avoided. Unless prior planning and appropriate action has been taken much of the estate's property will pass through the probate system which is a special court that supervises disposal of a man's assets after he dies.

An expert on the probate system makes this chilling comment about the probate situation,

[illegible]

[illegible]

[illegible]

"One lawyer to whom I protested the inequity of the probate system wanted to know what I was making a fuss about. 'It's a dead man's money, isn't it?' he shrugged."[1]

Has a letter of last instruction been written? This can be almost as important as the will itself. This letter should contain information and advice that the family will need that is inappropriate for the will itself.

The estate should be so designed that as little of it will be reduced by taxes or suffer the delays and expenses of probate. Avoiding probate costs involves exploring the advantages of setting up trusts and of owning things jointly with the spouse or grown-up children.

Expert legal help is a must. This phase of estate planning is complex and the tax laws--both federal and state--are undergoing almost continuing changes.[2]

Even though expert legal help should be used, a basic understanding of the legal instruments involved and their uses will help the estate planner in considering the available planning avenues.

Wills

If an officer dies without a will, the inheritance laws of his state will parcel out his property and it will be done in a way that rarely conforms to his plans. In many

---

[1]Norman F. Dacey, How to Avoid Probate (New York: Crown Publishing, Inc., 1965), p. 8.

[2]The Time-Life Book of Family Finance, p. 363.

states the laws are so antiquated and clumsy that they can make life miserable for his heirs; most remove at least part of the estate from the widow's control handing it over to children's trustees or others. The following list gives a few examples of the many different ways the different states distribute property to the various kinds of survivors the officer might leave.

If a wife and one child are left:

- Half the estate to his wife, half to the child.
- One third to his wife, two thirds to the child.
- His wife gets the use of half the real estate during her lifetime, plus one third of the personal property. The child receives the balance of the estate.
- His wife gets a stipulated sum "off the top"--say, $2,000 in cash and all "intangible" property such as stocks and bonds. The rest of the estate is divided between wife and child.

If a wife and two or more children are left:

- One third to wife, two thirds apportioned among children.
- Wife and children take equal shares. For example, if there are four children, the estate is divided into fifths, with a fifth for the wife and for each child.

If his wife, his parents and no children are left:

- All to his wife.
- His wife receives $5,000 off the top and half the residue; the balance of the estate goes to his parents.

If he left his wife and a brother:

- All to his wife.

- His wife receives $10,000 off the top plus half of the rest of the estate; the remainder is divided among his brother and his descendants.

It is also important that the officer's wife have a will. When a wife dies without having made a will, a surviving husband normally gets the same share under the law as would a surviving wife. It is evident that the law might well give a substantial share of an estate to people with no need for it--a rich brother or well-off parents--while a wife would receive much less than her husband would be likely to leave her.[3]

It is obvious that a will should not be a "do-it-yourself" project. Even if only a simple will is indicated, the services of an attorney are essential to see to it that all the technicalities are complied with and that the will stands up legally. Obviously, where complex situations are involved professional legal services are definitely required. However, in sitting down with a lawyer, it is helpful to have thought out some objectives. The following are illustrative of the kinds of objectives which can be served through a will:[4]

1. Special instructions as to paying the expenses of one's last illness, as well as burial instructions.

2. Provision for payment of one's just debts.

---

[3]Ibid., p. 364

[4]Philip J. Goldburg, Estate Planning (New York: Oceana Publications, Inc., 1960), pp. 90-91.

3. Specific bequests of personal belongings, so that these may be passed on in tact, and not sold in order to be included as part of the residue of the estate.

4. Cash bequests to individuals or charities, but so arranged that they do not take precedence over the desire to give the bulk of one's estate to one's close kin.

5. Provisions as to the handling of real estate--whether to sell and include the proceeds for distribution; whether to retain for the benefit of a surviving spouse; whether to place the matter in the discretion of the executor.

6. Provisions for trusts through which income becomes available to specified heirs, but the principal is reserved for a later date. Several objectives can be served through trust arrangements--the continued support of minor children, yet preserving a principal for them on reaching their majority; an income for a wife, in addition to her marital share, with principal over to the children at the wife's death; protection of the assets against dissipation through providing incomes while leaving the principal in tact; accumulation within the trust if it is desired to build up the assets rather than to effect an immediate payout of income or principal. In many instances, the will is the hand maiden of the trust.

7. Appointment of such special resources as executor, guardian for children, trustee--assuring that for each job that has to be done the most dependable and competent person for that job is secured.

The individual officer must be willing to periodically review the will--as well as other elements of his estate plan--to determine if the objectives of the estate planner

(which may have changed) are still reflected properly in the will. A will can easily be changed by the execution of a shorter codicil. A codicil is simply an addition or supplement to a will. Where major changes are involved, however, it is generally desirable to make a new will. In determining whether the present will meets the objectives, or if executing a will for the first time, and to ensure that the will reflects the expressed desires, the following additional matters should be discussed with the attorney.[5]

1. Shaping the will to take advantage of the marital deduction, and generally to reduce the impact of estate taxes, both federal and state.

2. Integration of insurance arrangements with the will.

3. Whether inheritance taxes are to be paid by each beneficiary or by the estate.

4. Provision for common disaster, i.e. husband and wife dying at the same time.

5. The rights, powers and discretion to be exercised by the executor, trustee or guardian.

6. Assuring sufficient liquidity of funds to take care of estate tax obligations and other immediate cash requirements.

In short, a will is essential to ensure that the estate plan is executed in accordance with the desires of the estate planner.

---

[5]Ibid., p.92.

Trusts

Several devices that may be used to bypass probate are trusts, life insurance and joint ownership with rights of survivorship. These latter two devices are more commonly understood than trusts although all property "jointly held" should be discussed with the attorney when the will is prepared. Similarly, the beneficiary of life insurance policies must be clearly indicated to avoid probate.

It may be fashionable to associate trusts with the wealthy but they can also be of value to the officer of relatively moderate means. A trust may reduce the income tax liability of the officer setting it up, reduce the ultimate tax on the estate, or both. In addition, if properly prepared, it can assure the officer that its beneficiaries will be protected from their own imprudence, if necessary. Because of the complexity of trusts and their tax ramifications an officer planning to set one up must consult with experts in whom he has confidence, such as a lawyer, accountant and, if life insurance will be involved, an insurance man. These specialists may offer their own recommendations, and will make certain the proper procedures are followed to assure a plan's general and tax legality.

Basically, there are two types of trusts--living trusts--created by a declaration or deed of trust, and testamentary trusts, created by will. A living trust may take effect immediately while the testamentary trust takes effect at the officer's death and, generally, cannot be changed thereafter. It is the living trust that will allow property to bypass probate because it keeps it out of the estate. It affords private and

expeditious passage of property to beneficiaries, thus avoiding the expense, delay and the possibility of publicity that probate might bring. On the other hand, the testamentary trust which is created by the will, does not have these advantages.

A living trust may be subsequently revoked if it is a "revocable" trust giving the grantor the right to change it, or it may be "irrevocable," removing control of the property from the officer. This in turn gives him and his family certain tax advantages. Income tax advantages that a properly drawn living-trust agreement can provide for an officer and his family while he is alive will be discussed later. The revocable trust may be attractive to the officer who cannot decide on final disposition of his property, but, perhaps for lack of time or specialized knowledge, prefers to have his property managed by professionals--trustees, be they skilled individuals or a bank or trust company. A major advantage of the revocable trust is that it allows the officer to gauge the performance of the trustee. If dissatisfied, he can make a change. If satisfied, he has greater assurance that his wishes will be carried out competently at his death, and thus may subsequently decide to make the trust irrevocable.

The estate tax savings afforded by properly drawn living trusts and certain testamentary trusts generally are most beneficial to persons of affluence, but they also can be realized by officers of relatively modest means. For example, the estate of the widowed officer would not have the advantage of the marital deduction, which could make up to half the estate tax-exempt if passed to a spouse. Thus, aside from

certain charitable bequests, everything in the net estate above the $60,000 personal exemption would be subject to estate taxation. Increasing numbers of people are leaving $60,000 and larger estates, because of the broader ownership of homes, inflationary effects of the economy,. life insurance and other assets in this increasingly affluent age.

There may be personal considerations that may transcend the tax and other economic factors. An officer may want some control by the use of a trust arrangement, to make certain that his wishes are executed or to protect the interests of his beneficiaries or heirs. The beneficiaries may not be competent to manage funds or other assets, because of extreme youth or old age, or because of other limitations. A qualified trustee could accomplish that for them.

Trust provisions applicable to the beneficiary may be capsulized as follows:[6]

1. Income paid periodically to the trustor himself, or to his wife, child, parent, friend or a charitable or other institution.

2. Income to accumulate for a minor until he is a certain age.

3. Principal to be paid to a named person when he reaches a certain age.

4. The principal is to be paid to the beneficiary upon marriage as a marriage settlement.

The selection of the trustee is very important. He must be a trustworthy individual who not only is expert in finance, but also has the advantage of personally

---

[6]Nuccio, The New York Times Guide to Personal Finance, pp. 231-233.

knowing the family and its needs. To assure perpetuity of trusteeship, the officer may choose a trust company or bank. A lawyer could suggest a compromise, in which both may be named, or a corporate trustee could be named to take over when the individual trustee dies. Otherwise the court would name a successor trustee.

Some assurance of safety to all persons involved in a trust is afforded by various state laws. While these may vary from state to state, they generally require that a trustee keep accurate accounts of the assets, which must be segregated; that he comply with the wishes of the grantor in carrying out the terms of the trust; that he not take personal advantage of his position; and that he confine investments to those permitted by law for trusts, if he in fact is responsible for making the investment decisions. A trustee's compensation may be agreed upon between him and the grantor, or determined by law or court decision.[7]

Tax Planning

The federal estate tax is a tax on the right to transfer property at death and those property transfers occuring in contemplation of death. The gift tax was designed to prevent avoidance of the estate tax by transfers of property during the owners lifetime. Many states also have estate and gift taxes. The amount of the tax depends on the size of the estate, existence of a marital deduction, and the type of ownership

---

[7] Ibid., p. 233.

[illegible]

[illegible]

[illegible]

[illegible]

involved. See Table 16 for details of ownership and probable estate tax and gift tax results.

If the estate is valued at $60,000 or less then no federal estate taxes will be levied. The estate can be left to anyone without a federal tax burden. Most state laws follow this $60,000 exclusion. Additionally, there is the "marital deduction" clause. Federal law permits a person to transfer up to one-half of the estate, tax-free, to his spouse. If the estate is valued at $200,000, then one-half or $100,000 would not be taxed. Additionally, the marital deduction of $60,000 would be applied to that taxable $100,000 leaving a $40,000 estate for federal tax purposes. The federal estate tax on that amount would be about $5,000.[8] State taxes would generally be less than $5,000. However, a caveat must be inserted in this treatise since both federal and state laws are always under review and the situation described could easily change. Certainly, this is another reason for a periodic review by the estate planner and for him to secure expert assistance and guidance when instituting and changing objectives or legal instruments.

The federal gift tax allows one to "give away" $3,000 annually to any one person without incurring a gift tax. In addition to this limitation of $3,000 annually per person, there is an overall specific exemption of $30,000 against all taxable gifts which a person may make during his lifetime.

---

[8]The Time-Life Book of Family Finance, p. 382.

TABLE 16

PROPERTY OWNERSHIP AND PROBABLE TAX RESULTS

Types of ownership	Federal gift tax results	Federal estate tax results
Joint Bank Accounts. Rules and practices vary. Generally, either co-owner can make withdrawals, and the survivor becomes sole owner.	No taxable gift when account is set up. Money put in by one owner may be subject to tax when withdrawn by the other (if the donor's total gifts to the co-owner exceed $3,000 per year, and if he has used up his additional $30,000 lifetime gift tax exemption).	All taxable when either owner dies, except to the extent that the survivor can prove his contribution.
Savings Bonds In Joint Names. Either owner can cash in the bonds. Survivor becomes sole owner.	Similar to above.	Similar to above.
Joint Tenancy. Two or more people hold title to property and each can sell his interest. When one dies, his interest passes to the other owner(s) by right of survivorship.	Gift tax return generally must be filed when a person puts property in joint tenancy and the value of the other joint tenant's interest exceeds $3,000. Real estate owned by husband and wife qualifies for special rule allowing tax deferment. *Gift tax also may be payable when a joint tenancy is severed.*	Similar to above. Even though the creator of a joint tenancy is considered to make a lifetime gift for gift tax purposes, all remains subject to tax in his estate if he is first to die, unless the survivor can prove otherwise.
Tenancy By The Entirety. A form of joint tenancy limited to husbands and wives and in some states to their ownership of real estate. Neither spouse can sell without the consent of the other.	Similar to above.	Similar to above.
Tenancy In Common. Differs from joint tenancy in that title does not pass to survivor. When one owner dies, his share passes to his heirs. Co-owner continues to own his share.	Gift tax return generally must be filed by person contributing the property if co-owner acquires ownership interest worth more than $3,000.	At each owner's death, only his own share is subject to tax. If there are two owners, half the value of the property would be included in the estate of each.
Community Property. A unique form of co-ownership limited to married couples in Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas and Washington. Each spouse is presumed to own one-half of the couple's property acquired during marriage (except by gift or bequest) regardless of whose name appears as owner.	No gift occurs, unless community property is created by converting one spouse's separate property into community property. Similarly, if community assets are made the separate property of one spouse, the other is considered to have made a gift of his half.	Only one-half is taxable in the estate of whichever spouse dies first. (The estate tax *marital deduction* permits married couples in other states to achieve similar tax results.)

SOURCE: "Planning For A Secure Old Age," Security (Virginia National Bank, January 1971), p. 3.

If gifts are made within three years of death, recipients will have to prove they were not made "in contemplation of death". If this can't be proved, then the gifts become part of the taxable estate and subject to applicable tax laws.[9]

Location of Valuable Papers

It is vitally important that the survivors know where all important papers and documents are located and whom to contact for assistance. The Naval Officers Guide recommends that a certified copy of the following forms be placed in a secure envelope with other important papers and placed in a readily accessable place:

Officers birth certificate and one for each member of his family,
Naturalization papers if not born in the United States,
Marriage certificates including former marriages of officer or his wife,
Court decrees of divorce or annulment if either the officer or his wife were previously married,
Court orders pertaining to support and custody of legal dependents,
Death certificates of children, former wife, or former husband of the wife,
Deeds and mortgage documents,
Insurance policies,
Bank accounts, Saving Bonds, securities,
Wills,
Power of attorney,
Proof of service,
Retirement orders,
Record of Emergency Data (DD Form 93-1).[10]

---

[9] Ibid., pp. 383-384.

[10] Ashton and Mack, The Naval Officers Guide, pp. 518-519.

Letter of Last Instructions

One other document that should be placed with these important papers is what may be called a "Letter of Last Instructions." The executor of the estate and lawyer should have a copy of the letter which is separate and apart from the will. This letter, upon death should contain a statement as to the location of the will and other important papers. All important papers should be listed in this letter as well as a description of all property i.e., stocks, bonds, real estate and bank accounts. Instructions as to funeral and burial arrangements should also be contained in this letter. If the officer was involved in any business a statement should be made concerning the continuity of the business. A statement of reasons for actions taken in the will especially if there are disinheritances should be in the letter. Lastly, instructions should be given to the survivors advising how they can satisfy their economic needs with the use of the estate proceeds.[11]

In all fairness to the potential survivors, a discussion should be held advising them of the plans. It certainly would be a tragedy to leave a widow without necessary information that can be easily provided by the person who is formulating the plans and knows where to get all the required information and documents relatively easily.

---

[11]The Time-Life Book of Family Finance, pp. 379-380.

CHAPTER V

SUMMARY AND CONCLUSIONS

The career military officer earns a sufficient income to save a portion, and use it to protect his dependents in the event of his premature death. His income is also sufficient enough to save an additional portion and use it to build an estate to ease his financial requirements in his retired years. However, the protection and savings program should not be left to chance and should follow a prescribed plan.

As with any good plan, objectives of the estate must be specified. These should emphasize the protection of the survivors in the event of the demise of the officer. The cost of the protection should be minimized so that remaining "available" income can be maximized. A secondary objective should be to build the estate so that the later years have a greater degree of security. The amount that can be contributed to this secondary goal is determined by the life styles of the officer and his family. Some may want to live well today while others may be willing to sacrifice a bit today and live better tomorrow.

The military career officer is perhaps more fortunate in several ways than his civilian counterpart. His salary today--and tomorrow-- can be roughly quantified. He can allocate his income for estate building with a certain degree of assurance of

his future salary level. As his salary rises a portion of the raise can also be used in the building of the estate.

The career officer also must be aware and prepared for early unemployment either by his choice, the services choice or because of non-selection for promotion. While an early retirement check is nice to have it is not large enough to satisfy the needs of a family with children. A second career must then be planned on by most officers.

The active duty officer's survivors receive considerable protection against privation because of DIC, VA education assistance and Social Security assistance while the children are young. DIC continues when the children are grown but other VA and Social Security support stops leaving a financial deficit for the widow to live with until she is 60 years old. She should be protected against the possibility of this occurring.

Life insurance is the most common way used to provide initial financial protection for the survivors. Term insurance, associated with an iron-willed savings plan is the cheapest way to provide this protection but most individuals probably are better off with the purchase of cash-value insurance. Perhaps some of each kind is the ultimate solution for many officers.

Financial vehicles for building an estate are varied. Mutual funds and common stocks are used by many estate builders. Dollar cost averaging and the Monthly Investment Plan for stocks listed on the New York Stock Exchange may be a place

to start for the novice investor. Homeownership was once thought to be one of the better investments but there has been some rethinking on that subject recently.

The possible complications that may arise from a poorly planned estate dictate that experts be used in preparing the necessary legal documents. The will may be the most important personal document that an officer ever signs. An estate without a will ceases to be a planned estate. It will no longer be directed by a totally concerned individual, because the state determines how the estate will be allocated if there is no will.

An attorney should also be consulted if any forms of the trust are used. An attorney not only will ensure the correct preparation of the documents but will be knowledgeable concerning tax implications of the estate plan. If he isn't, then an accountant dealing in this field should be consulted.

The location of the will and other important papers should be common knowledge to the wife and the family's legal representative if it has one.

The need for estate planning by the career military officer is certainly evident. Without it family protection as well as the financial building of an estate is left to chance, when, in fact, chance is the last risk one would be willing to take.

BIBLIOGRAPHY

Books

Ageton, Arthur A. and Mack, William P. The Naval Officer's Guide. Annapolis, Maryland: United States Naval Institute, 1964.

Anthony, Robert N. Management Accounting. Homewood, Illinois: Richard D. Irwin, Inc., 1970.

Bogen, Jules I. Financial Handbook. New York: The Ronald Press Company, 1964.

Britton, Virginia. Personal Finance. New York: American Book Company, 1968.

Casey, William J. Estate Planner's Kit. New York: Institute for Business Planning, Inc., 1967.

Cohen, Jerome B. and Hanson, Arthur W. Personal Finance. Homewood, Illinois: Richard D. Irwin, Inc., 1958.

The Consumers Union Report on Life Insurance. Mount Vernon, New York: Consumers Union, 1967.

Dacy, Norman F. How to Avoid Probate. New York: Crown Publishers, Inc., 1965.

Engel, Louis. How to Buy Stocks. New York: Bantam Books, Inc., 1967.

Goldburg, Philip J. Estate Planning. New York: Oceana Publications, Inc., 1960.

Grant, E. Stanley. Lifetime Investing for Security and Growth. New York: Exposition Press, Inc., 1959.

Hoffman, William H., Jr. Effective Estate Planning Procedures for Minimizing Taxes. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1968.

Managing Insurance and Personal Finance. Harrisburg, Pennsylvania: Stackpole Books, 1967.

Miller, Joel E. Federal Taxation of Trusts. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1968.

Nuccio, Sal. The New York Times Guide to Personal Finance. New York: Harper & Row, 1963.

Osler, R. W. and Robinson, C. C. Guide to Life Insurance. Indianapolis, Indiana: The Rough Notes Company, 1958.

Porter, Sylvia. How to Get More for Your Money. New York: MacFadden-Bartell Corporation, 1962.

Silverman, Richard. $100 Gets You Started. New York: MacMillan Company, 1965.

The Time-Life Book of Family Finance. New York: Time-Life Books, 1969.

U.S. Department of Defense, Report of the First Quadrennial Review of Military Compensation. Modernizing Military Pay, Vols. I & II. Washington, D.C.: Government Printing Office, 1967.

________. Modernizing Military Pay, Vols. IV & V, 1969.

Wilder, Rey. The MacMillan Guide to Family Finance. New York: The MacMillan Company, 1967.

Pamphlets

Cobleigh, Ira V. "The Unrivaled Investment Qualities of Cash Value Life Insurance." Insurance Field Company, 1968.

"Federal Benefits for Veterns and Dependents." Veterans Administration, March, 1970.

"Planning Your Estate." Navy Mutual Aid Association, June, 1970.

"Suggested Minimum Life Insurance Program for Career Officers." Navy Mutual Aid Association, March, 1970.

"Your New Social Security and Medicare Fact Sheet." The Bureau of National Affairs, Inc., 1970.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

"Your Retirement Home Guide." American Association of Retired Persons and National Retired Teachers Association, 1970.

Periodicals

"Bird in Hand." Navy Times, February 10, 1971.

Elia, Charles J. "The Investor." Navy Times, December 30, 1970.

"The Estate Tax Return." Security. Virginia National Bank, August, 1970.

"Everything I Have Is Yours, Darling." Security. Virginia National Bank, September, 1970.

Horowitz, Robert S. "This Week in Congress." Navy Times, December 2, 1970.

________. "Survivor Benefits Overhaul Pushed." Navy Times, February 3, 1971.

"Is It Still Good?" Security. Virginia National Bank, December, 1970.

"Make 1971 Your Bench-Mark Year." Changing Times, January, 1971.

"Planning For A Secure Old Age." Security. Virginia National Bank, January, 1971.

"Practical Thoughts on Choosing An Executor." Security. Virginia National Bank, May, 1970.

"Retirement Without Financial Pain." Dynamic Naturity, November, 1968.

"The Washington Scene." The Retired Officer, September, 1970.

"The World of the Military Retiree." Retirement Supplement. Navy Times, October 28, 1970.

Unpublished Material

Fechter, Alan E. and Mahoney, Bette S. "The Economics of Military Retirement." Research Paper P-414, Institute for Defense Analyses, July, 1967.

Lauck, John H. "An Appraisal of the Experience Under the Retired Servicemen's Family Protection Plan: 1953-1966." Unpublished Ph.D. Dissertation, The George Washington University, 1967.

Lenz, Allen J. "Military Retirement and Income Maximization: An Examination of the Economic Incentive to Extended Military Service." Summary of an Unpublished Ph.D. Dissertation, Stanford Graduate School of Business, Stanford University, 1967.

Nutt, T. O., LCdr., USN. "The Utility of Pay to a Naval Officer." Unpublished Master's Thesis, The George Washington University, 1963.